

CITY OF NORTH LITTLE ROCK, ARKANSAS
AUDITED BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

**CITY OF NORTH LITTLE ROCK, ARKANSAS
AUDITED BASIC FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS REPORT

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INDEPENDENT AUDITORS REPORT

Honorable Patrick Hays, Mayor
And Members of the City Council
City of North Little Rock, Arkansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds information of the City of North Little Rock, Arkansas as of and for the year ended December 31, 2006, which collectively comprise the City's basis financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the North Little Rock Electric Department and the Utilities Accounting Department, whose statements represent total assets and program revenues of \$168,907,312 and \$78,502,694, respectively and represent 58% and 91% of the aggregate business-type activities and the North Little Rock Waste Water Utility, whose statements represent total assets and program revenues of \$64,856,315 and \$9,180,794, and represent 81% and 98% of the aggregate discretely presented component unit's total assets and program revenues at December 31, 2006 and for the year ended, respectively. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the North Little Rock Electric Department and the Utilities Accounting Department, all of which are included in aggregate business-type activities, were not audited in accordance with *Government Auditing Standards*. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of North Little Rock, Arkansas as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor Patrick Hays and Members of the City Council
City of North Little Rock, Arkansas

The accompanying management's discussion and analysis and required supplementary information listed in the accompanying table of contents, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wilcox & Bivings, P.C.

Suwanee, Georgia
March 19, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF NORTH LITTLE ROCK, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Management of the City of North Little Rock (the "City") provides this Management's Discussion and Analysis. This narrative overview and analysis of the City's financial activities is for the year ended December 31, 2006. We encourage readers to consider the information presented in conjunction with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- ❖ The total assets of the City exceeded its total liabilities as of December 31, 2006 by \$169,716,086 (presented as "net assets"). Of this amount, \$48,922,808 was reported as "unrestricted net assets" and may be used to meet the government's on-going obligations to citizens and creditors.
- ❖ The City's total net assets increased by \$48,790,665 in 2006. Net assets of governmental activities increased by \$42,613,194. Net assets of business-type activities increased \$6,177,471.
- ❖ As of December 31, 2006 the City's governmental funds reported combined ending fund balances of \$35,980,260, an increase of \$3,001,831 from 2005. Approximately 26% of this amount, \$9,215,322, is available or spending at the City's discretion (unreserved, undesignated fund balance).
- ❖ As of December 31, 2006, the unreserved, undesignated fund balance for the General Fund was \$12,941,864 or 28% of total General Fund expenditures.
- ❖ The City's total liabilities decreased by \$8,065,459. The main factor in the decrease was the annual debt service requirements for the long-term 1992 and 1997 Electric Department revenue bonds.
- ❖ As of December 31, 2006, net assets of fiduciary funds were \$33,250,537. There was an increase of \$936,728 in the total fiduciary net assets held in trust for the year ended December 31, 2006.
- ❖ The City's component units reported net assets of \$61,029,335 as of December 31, 2006. This was an increase of \$699,850 when compared to December 31, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods, such as uncollected property taxes and earned but unused compensated absences.

CITY OF NORTH LITTLE ROCK, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Government-wide Financial Statements - continued

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues ("governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). The governmental activities of the City include general government (financial and administration), public safety, public works, community development, street, and parks and recreation. The business-type activities of the City include the City's Electric Department.

The government-wide financial statements include not only the City of North Little Rock (known as the primary government) but also legally separate component units. These consist of the North Little Rock Waste Water Utility, the William F. Laman Public Library, the North Little Rock Airport Commission and the North Little Rock Advertising and Promotion Commission. Financial information for the component units are reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 10-11 of this reporting package.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories - governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 23 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Baseball Stadium/Hays Center Capital Improvement Fund, and the Sales Tax Capital Improvement Fund, which are considered to be major funds. Data for the other 20 governmental funds is combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 12-15 of this reporting package. A budget to actual comparison for the General Fund can be found on page 16 of this reporting package.

Proprietary Fund

The City maintains two different types of proprietary funds. Enterprise funds and internal service funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its electric operations. Internal service funds are an accounting convention used to accumulate and allocate costs internally among a City's various functions. The City uses an internal service fund to account for its Utilities Accounting Department (the "UAD"). The UAD primarily benefits the Electric Department and is therefore included in the business-type activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 18-20 of this reporting package.

**CITY OF NORTH LITTLE ROCK, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

Fiduciary Fund

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has one fiduciary fund, the Non-Uniformed Employees Retirement Fund.

The basic fiduciary fund financial statements can be found on pages 21-22 of this reporting package.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 25-47 of this reporting package.

Other Information

In addition to the basic financial statements and accompanying notes, this report also includes certain required supplementary information and additional financial schedules. These can be found on pages 48-67 of this reporting package.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table looks at the City as a whole and provides a summary of its net assets for 2006 compared to 2005:

CITY OF NORTH LITTLE ROCK ARKANSAS' NET ASSETS						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 44,111,478	\$ 46,432,465	\$ 57,546,614	\$ 59,093,519	\$ 101,658,092	\$ 105,525,984
Capital assets	<u>77,299,307</u>	<u>44,378,860</u>	<u>111,360,698</u>	<u>110,556,126</u>	<u>188,660,005</u>	<u>154,934,986</u>
Total assets	<u>121,410,785</u>	<u>90,811,325</u>	<u>168,907,312</u>	<u>169,649,645</u>	<u>290,318,097</u>	<u>260,460,970</u>
Long-term liabilities	14,709,753	13,469,183	84,158,163	90,661,748	98,867,916	104,130,931
Other liabilities	<u>5,511,538</u>	<u>7,713,220</u>	<u>16,222,557</u>	<u>16,823,319</u>	<u>21,734,095</u>	<u>24,536,539</u>
Total liabilities	<u>20,221,291</u>	<u>21,182,403</u>	<u>100,380,720</u>	<u>107,485,067</u>	<u>120,602,011</u>	<u>128,667,470</u>
Net assets:						
Invested in capital assets, net of related debt	63,316,691	44,378,860	30,663,403	21,589,995	93,980,094	65,968,855
Restricted	1,710,613	2,732,676	25,102,571	26,313,843	26,813,184	29,046,519
Unrestricted	<u>36,162,190</u>	<u>22,517,386</u>	<u>12,760,618</u>	<u>14,260,740</u>	<u>48,922,808</u>	<u>36,778,126</u>
Total net assets	\$ <u>101,189,494</u>	\$ <u>69,628,922</u>	\$ <u>68,526,592</u>	\$ <u>62,164,578</u>	\$ <u>169,716,086</u>	\$ <u>131,793,500</u>

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City's, assets exceeded liabilities by \$169,716,086 as of December 31, 2006. The City's net assets increased by \$48,790,665 during 2006.

The largest portion of the City's net assets, 93,980,094 (55%) reflects its investments in capital assets (such as land, buildings and improvements, furniture, machinery and equipment, computer equipment, vehicles, utility systems and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF NORTH LITTLE ROCK, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

GOVERNMENT-WIDE FINANCIAL ANALYSIS - CONTINUED

An additional portion of the City's net assets, \$26,813,184 (16%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$48,922,808 (29%) may be used to meet the government's ongoing obligations to citizens and creditors. As of December 31, 2006 and December 31, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities.

Analysis of the City's Operations

The following table provides a summary of the City's operations for the year ended December 31, 2006 and December 31, 2005. Governmental activities increased the City's net assets by \$42,613,194 for the year ended December 31, 2006 and by \$10,366,575 for the year ended December 31, 2005. Business-type activities increased the City's net assets by \$6,177,471 for the year ended December 31, 2006 and by \$6,559,465 for the year ended December 31, 2005.

CITY OF NORTH LITTLE ROCK, ARKANSAS' CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 6,000,237	\$ 7,537,730	\$ 78,502,694	\$ 78,995,082	\$ 84,502,931	\$ 86,532,812
Operating grants and contributions	1,140,677	1,446,488	-	-	1,140,677	1,446,488
Capital grants and contributions	155,000	1,372,937	-	-	155,000	1,372,937
General revenues:						
Taxes	62,114,610	44,593,838	-	-	62,114,610	44,593,838
Franchise fees	385,695	380,586	-	-	385,695	380,586
State turnback	946,895	3,183,567	-	-	946,895	3,183,567
Investment income	1,196,214	853,037	1,832,958	1,647,217	3,029,172	2,500,254
Miscellaneous	2,113,173	1,081,438	943,475	919,245	3,056,648	2,000,683
Total revenues	74,052,501	60,449,621	81,279,127	81,561,544	155,331,628	142,011,165
Expenses:						
General government	4,401,498	12,426,190	-	-	4,401,498	12,426,190
Public safety	27,279,638	29,216,658	-	-	27,279,638	29,216,658
Public works	886,318	5,407,409	-	-	886,318	5,407,409
Street and traffic	2,817,344	3,987,784	-	-	2,817,344	3,987,784
Health and sanitation	5,157,384	5,193,693	-	-	5,157,384	5,193,693
Community development	1,311,344	1,571,345	-	-	1,311,344	1,571,345
Culture and recreation	2,724,013	6,113,658	-	-	2,724,013	6,113,658
Interest and fiscal charges	266,874	337,077	-	-	266,874	337,077
Electric Department	-	-	61,142,049	61,042,472	61,142,049	61,042,472
Total expenses	44,844,413	64,253,814	61,142,049	61,042,472	105,986,461	125,296,286
Increases (decreases) in net assets before transfers	29,208,088	(3,804,193)	20,137,078	20,519,072	49,345,166	16,714,879
Transfers - internal	13,405,106	14,170,768	(13,959,607)	(13,959,607)	(554,501)	211,161
Increases (decreases) in net assets	42,613,194	10,366,575	6,177,471	6,559,465	48,790,665	16,926,040
Net assets - Beginning of year	58,576,300	59,262,347	62,349,121	55,605,113	120,925,421	114,867,460
Net assets - End of year	\$ 101,189,494	\$ 69,628,922	\$ 68,526,592	\$ 62,164,578	\$ 169,716,086	\$ 131,793,500

**CITY OF NORTH LITTLE ROCK, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF GOVERNMENTAL AND PROPRIETARY FUNDS

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$35,980,260. Approximately 26% of this total amount or \$9,215,322 constitutes unreserved and undesignated fund balances. The remainder of the fund balances are either reserved or designated by management to indicate that it is not available for new spending because it has already been committed to debt service, compensated absences, the non-uniformed pension, and other commitments.

The General Fund is the chief fund of the City. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$12,941,864, while total fund balance was \$17,801,158. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to the fund's total operational expenditures. Unreserved and undesignated fund balance represents 28% of total expenditures, while total fund balance represents 38% of that same amount.

The General Fund's fund balance increased by \$3,252,158 during the current fiscal year. Key factors in this growth are as follows:

- Total revenues increased by \$1,648,923 for a percentage increase of 5%. Taxes collected increased \$1,440,187.
- Total expenditures decreased by \$620,584 for a percentage decrease of 1%.
- Other financing sources decreased by \$50,000 for a percentage decrease of less than 1%.
- Other financing uses decreased by \$129,979 for a percentage decrease of 63%.

The Baseball Stadium/Hays Center Capital Improvement Fund balance totaled \$3,180,324 as of December 31, 2006, reflecting a decrease of \$450,200 during the current fiscal year. The fund balance decrease was due to revenues of \$16,530,861, expenditures on approved projects of \$21,166,361, proceeds from the revolving line of credit of \$9,441,500 and transfers for debt service totaling \$5,256,200.

The Sales Tax Capital Improvement Fund balance totaled \$3,843,835 as of December 31, 2006, reflecting an increase of \$2,380,979 during the current fiscal year. The fund balance increase was due to revenues of \$7,630,548, expenditures on approved projects for the fiscal year totaling \$3,411,579, transfers from other funds of \$1,479 and transfers for debt service totaling \$1,839,469.

Proprietary funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric Department had a balance of \$11,375,562 as of December 31, 2006. The fund had a net asset increase for the fiscal year totaling \$6,177,471.

General Fund Budgetary Highlights

The City made revisions to the original budgeted expenditures as necessary during the year, as approved by the City Council. However, all departments remained diligent in keeping expenditures within budget. The final amended General Fund budgeted expenditures totaled \$49,522,032 as compared to the original budgeted expenditures of \$48,669,825, an increase of \$852,207. The majority of the increase in expenditures was due to increases in special appropriations budgeted of \$394,700.

**CITY OF NORTH LITTLE ROCK, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2006 amounts to \$188,660,005, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, furniture, machinery and equipment, computer equipment, utility infrastructure, infrastructure assets, and vehicles.

Major capital asset events during the current fiscal year included the following:

- Continuing construction on the Dickey-Stephens Park and the Patrick Hays Senior Citizen's Center.
- Purchase of the U.S.S. Hoga tugboat.
- Construction and renovations of the Tennis Center, North Heights gymnasium and pool, and the Burns Park Golf Course.

**CAPITAL ASSETS AT YEAR-END
NET OF ACCUMULATED DEPRECIATION**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land and land rights	\$ 9,518,549	\$ 3,084,789	\$ 1,929,441	\$ 1,929,441	\$ 11,447,990	\$ 5,014,230
Construction in progress	25,563,673	6,160,130	803,206	626,069	26,366,879	6,786,199
Utility system infrastructure	-	-	180,732,875	176,359,457	180,732,875	176,359,457
Infrastructure	15,579,264	13,710,401	-	-	15,579,264	13,710,401
Buildings	38,938,584	34,590,769	-	-	38,938,584	34,590,769
Vehicles	15,507,064	14,745,101	-	-	15,507,064	14,745,101
Equipment	11,170,044	9,976,423	13,020,125	12,136,595	24,190,169	22,113,018
Ships and watercraft	3,850,513	2,651,764	-	-	3,850,513	2,651,764
Accumulated depreciation	(42,828,384)	(40,540,517)	(85,124,949)	(80,495,436)	(127,953,333)	(121,035,953)
Total	\$ 77,299,307	\$ 44,378,860	\$ 111,360,698	\$ 110,556,126	\$ 188,660,005	\$ 154,934,986

Additional information on the City's capital assets can be found in note 3 in the notes to the basic financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had \$102,857,616 in outstanding debt consisting of revenue bonds, general obligation bonds, and notes payable. Of this debt, \$89,160,000 was secured by specific revenue sources.

CITY OF NORTH LITTLE ROCK, ARKANSAS' OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue bonds	\$ 285,000	\$ 415,000	\$ 88,875,000	\$ 96,055,000	\$ 89,160,000	\$ 96,470,000
Notes payable	13,697,616	12,604,626	-	-	13,697,616	12,604,626
Total	\$ 13,982,616	\$ 13,019,626	\$ 88,875,000	\$ 96,055,000	\$ 102,857,616	\$ 109,074,626

The City's total debt (including compensated absences and other long-term operating liabilities) decreased by \$6,330,232 during the current fiscal year. Activity consisted of proceeds on a line of credit of \$9,441,500, payments on the above debt totaling \$15,658,510, and a decrease in accrued compensated absences of \$113,222. Additional information on the City's long-term debt can be found in note 4 in the notes to the basic financial statements.

**CITY OF NORTH LITTLE ROCK, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The area's economy and population growth remain strong. The City plans to continue improvements to local infrastructure, invest in its utility systems, support planning and development in the City, and focus on delivery of services to its citizens and customers.

The 2007 budget for the General Fund includes budgeted revenues of \$48,637,325 and budgeted expenditures of \$48,522,951.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, City of North Little Rock, 120 Main Street, North Little Rock, Arkansas 72114.

BASIC FINANCIAL STATEMENTS

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 28,126,078	\$ 7,544,991	\$ 35,671,069	\$ 2,690,667
Certificates of deposits	-	3,950,000	3,950,000	7,387,575
Investments	-	-	-	-
Receivables - net	15,191,597	3,402,197	18,593,794	3,447,729
Due from other governments	790,780	-	790,780	2,336
Internal balances	3,023	(3,023)	-	-
Prepaid expenses	-	68,358	68,358	64,277
Inventories	-	573,547	573,547	22,894
Restricted cash and cash equivalents	-	10,403,425	10,403,425	-
Restricted certificates of deposit	-	1,305,862	1,305,862	-
Restricted interest receivable and other assets	-	472,779	472,779	331,943
Restricted investments	-	25,818,475	25,818,475	-
Unbilled revenues	-	2,799,000	2,799,000	-
Unamortized portion of bond issue costs	-	1,211,003	1,211,003	195,793
Capital assets being depreciated - net	42,217,085	108,628,051	150,845,136	61,991,438
Capital assets not being depreciated	35,082,222	2,732,647	37,814,869	3,693,123
Total assets	121,410,785	168,907,312	290,318,097	79,827,775
LIABILITIES				
Accounts payable	987,518	4,393,461	5,380,979	255,304
Accrued interest	256,286	2,804,271	3,060,557	-
Other accrued liabilities	1,476,799	545,687	2,022,486	1,093,463
Due to other governments	15,979	-	15,979	-
Notes payable due in less than one year	2,634,956	-	2,634,956	986,717
Revenue bonds payable in less than one year	140,000	7,635,000	7,775,000	-
Customer deposits payable in less than one year	-	844,138	844,138	-
Notes payable due in more than one year	11,062,660	-	11,062,660	15,950,768
Revenue bonds payable in more than one year	145,000	81,240,000	81,385,000	-
Customer deposits payable in more than one year	-	1,813,880	1,813,880	-
Accrued compensated absences	3,502,093	1,104,283	4,606,376	512,188
Total liabilities	20,221,291	100,380,720	120,602,011	18,798,440
NET ASSETS				
Invested in capital assets, net of related debt	63,316,691	30,663,403	93,980,094	48,747,076
Restricted - expendable				
Debt service	343,319	-	343,319	-
Municipal court cost	157,139	-	157,139	-
Non-uniformed employees retirement	1,200,746	-	1,200,746	-
Other governmental	9,409	-	9,409	-
Electric Department	-	25,102,571	25,102,571	-
Waste Water Utility	-	-	-	267,460
Airport Commission	-	-	-	35,865
Unrestricted	36,162,190	12,760,618	48,922,808	11,978,934
Total net assets	\$ 101,189,494	\$ 68,526,592	\$ 169,716,086	\$ 61,029,335

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs:				
Primary government:				
Governmental activities:				
General government	\$ 4,401,498	\$ 1,784,975	\$ -	\$ -
Public safety	27,279,638	2,595,029	-	-
Public works	886,318	-	-	-
Street and traffic	2,817,344	38,507	-	-
Health and sanitation	5,157,384	626,495	-	-
Community development	1,311,344	-	1,140,677	-
Culture and recreation	2,724,013	955,231	-	155,000
Interest and fiscal charges	266,874	-	-	-
Total governmental activities	44,844,413	6,000,237	1,140,677	155,000
Business-type Activities				
Electric Department	61,142,049	78,502,694	-	-
Total business-type activities	61,142,049	78,502,694	-	-
Total primary government	\$ 105,986,462	\$ 84,502,931	\$ 1,140,677	\$ 155,000
Component Units				
Waste Water Utility	9,352,685	9,180,794	-	-
William F. Laman Public Library	1,973,628	63,186	-	-
Airport Commission	1,101,305	112,005	-	-
Advertising and Promotion Commission	682,927	-	-	-
	\$ 13,110,545	\$ 9,345,985	\$ -	\$ -
General revenues:				
Taxes - property				
Taxes - sales				
Taxes - other				
Franchise fees				
State turnback				
Investment income				
Grants and contributions not restricted				
to specific programs				
Other				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

See notes to basic financial statements.

Net (Expenses) Revenues and
Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,616,523)	\$ -	\$ (2,616,523)	\$ -
(24,684,609)	-	(24,684,609)	-
(886,318)	-	(886,318)	-
(2,778,837)	-	(2,778,837)	-
(4,530,889)	-	(4,530,889)	-
(170,667)	-	(170,667)	-
(1,613,782)	-	(1,613,782)	-
(266,874)	-	(266,874)	-
(37,548,499)	-	(37,548,499)	-
-	17,360,645	17,360,645	-
-	17,360,645	17,360,645	-
(37,548,499)	17,360,645	(20,187,854)	-
-	-	-	(171,891)
-	-	-	(1,920,442)
-	-	-	(989,300)
-	-	-	(682,927)
-	-	-	(3,764,560)
6,914,237	-	6,914,237	2,031,056
53,238,120	-	53,238,120	866,071
1,962,253	-	1,962,253	-
385,695	-	385,695	-
946,895	-	946,895	-
1,196,214	1,832,958	3,029,172	426,218
-	-	-	937,800
2,113,173	943,475	3,056,648	204,265
13,406,106	(13,959,607)	(554,501)	-
80,161,693	(11,183,174)	68,978,519	4,464,410
42,613,194	6,177,471	48,790,665	699,850
58,576,300	62,349,121	120,925,421	60,329,485
\$ 101,189,494	\$ 68,526,592	\$ 169,716,086	\$ 61,029,335

CITY OF NORTH LITTLE ROCK, ARKANSAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General Fund	Baseball Stadium/ Hays Center Capital Improvement Fund	Sales Tax Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 14,643,443	\$ 76,248	\$ 2,978,803	\$ 10,427,584	\$ 28,126,078
Property taxes receivable - net	4,681,258	-	-	969,664	5,650,922
Sales tax receivable	8,218,678	-	-	1,304,951	9,523,629
Accounts receivable - other	-	-	-	17,046	17,046
Due from other governments	508,131	-	222,649	60,000	790,780
Due from other funds	564,148	3,104,076	751,166	162,432	4,581,822
Total assets	\$ 28,615,658	\$ 3,180,324	\$ 3,952,618	\$ 12,941,677	\$ 48,690,277
LIABILITIES					
Accounts payable	\$ 987,518	\$ -	\$ -	\$ -	\$ 987,518
Accrued expenses	1,290,482	-	-	186,317	1,476,799
Due to other governments	-	-	-	15,979	15,979
Due to other funds	3,855,242	-	108,783	614,774	4,578,799
Deferred revenue	4,681,258	-	-	969,664	5,650,922
Total liabilities	10,814,500	-	108,783	1,786,734	12,710,017
FUND BALANCES					
Reserved for					
Encumbrances	736,722	9,662,370	2,566,309	1,713,023	14,678,424
Municipal courts	157,139	-	-	-	157,139
Non-uniformed employees	1,200,746	-	-	-	1,200,746
Capital improvements	-	-	1,277,526	5,278,365	6,555,891
Equitable Sharing	-	-	-	184,084	184,084
Community development	-	-	-	(252,692)	(252,692)
Drainage improvement	-	-	-	386,525	386,525
Debt service	-	-	-	343,319	343,319
Other	9,409	-	-	-	9,409
Unreserved - designated	2,755,278	-	-	746,815	3,502,093
Unreserved and undesignated	12,941,864	(6,482,046)	-	2,755,504	9,215,322
Total fund balances	17,801,158	3,180,324	3,843,835	11,154,943	35,980,260
Total liabilities and fund balances	\$ 28,615,658	\$ 3,180,324	\$ 3,952,618	\$ 12,941,677	\$ 48,690,277

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Total fund balances - governmental funds	\$ 35,980,260
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	77,299,307
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Property taxes are recognized as revenue in the period in which levied in the government-wide financial statements, but are reported as deferred revenue in the governmental funds	5,650,922
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Interest payable on long-term debt does not require current financial resources, therefore interest payable is are not reported as a liability in the governmental funds	(256,286)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Compensated absences	(3,502,093)
Revenue bonds payable	(285,000)
Notes payable	<u>(13,697,616)</u>

Net assets of governmental activities	\$ <u>101,189,494</u>
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See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

		Baseball Stadium/ Hays Center Capital Improvement Fund	Sales Tax Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund				
Revenues					
Taxes - sales	\$ 21,172,406	\$ 16,358,862	\$ 7,428,276	\$ 8,278,666	\$ 53,238,120
Taxes - property	4,818,189	-	-	998,046	5,816,235
Taxes - other	1,962,253	-	-	-	1,962,253
Intergovernmental	946,895	100,000	-	1,347,732	2,394,627
Fines and fees	3,283,489	-	-	1,031,329	4,314,818
Licenses and permits	1,919,059	-	-	-	1,919,059
Investment earnings	538,162	57,039	54,032	546,981	1,196,214
Miscellaneous	1,891,333	14,940	148,240	58,660	2,113,173
Total revenues	36,531,786	16,530,861	7,630,548	12,261,304	72,954,499
Expenditures					
General government:					
Administration	1,688,400	-	-	-	1,688,400
City clerk	257,875	-	-	-	257,875
Code enforcement	735,016	-	-	-	735,016
Commerce and government relations	336,166	-	-	-	336,166
Finance	660,655	-	-	-	660,655
Fiscal control	110,817	-	-	-	110,817
District court - first division(criminal)	508,636	-	-	-	508,636
District court - second division(traffic)	459,667	-	-	-	459,667
Legal	474,469	-	-	-	474,469
Personnel	404,531	-	-	-	404,531
Planning	476,610	-	-	-	476,610
Public defender	5,638	-	-	-	5,638
Vehicle maintenance	752,272	-	-	-	752,272
Total general government	6,870,752	-	-	-	6,870,752
Animal shelter	550,142	-	-	-	550,142
Community development	-	-	-	1,075,997	1,075,997
Emergency services	1,323,533	-	-	-	1,323,533
Health	424,006	-	-	-	424,006
Main Street Argenta	115,867	-	-	-	115,867
Neighborhood services	120,223	-	-	-	120,223
Parks and recreation	-	-	-	4,834,237	4,834,237
Public safety - fire	11,133,054	-	-	-	11,133,054
Public safety - police	15,762,080	-	-	13,232	15,775,312
Public works	875,657	-	-	-	875,657
Sanitation	4,044,715	-	-	-	4,044,715
Senior Citizens	637,449	-	-	-	637,449
Special appropriations	4,443,657	-	-	-	4,443,657
Street and traffic	-	-	-	3,868,191	3,868,191
Capital outlay	-	21,166,361	3,411,579	3,253,047	27,830,987
Debt Service:					
Principal retirement	-	-	-	8,477,640	8,477,640
Interest and agents fees	-	-	-	397,855	397,855
Total expenditures	46,301,135	21,166,361	3,411,579	21,920,199	92,799,274
Excess (deficiency) of revenues over (under) expenditures	(9,769,349)	(4,635,500)	4,218,969	(9,658,895)	(19,844,776)
Other Financing Sources (Uses)					
Proceeds from issuance of long-term debt	-	9,441,500	-	-	9,441,500
Transfers in	13,100,000	-	1,479	9,776,723	22,878,202
Transfers out	(78,493)	(5,256,200)	(1,839,469)	(2,298,934)	(9,473,096)
Total other financing sources (uses)	13,021,507	4,185,300	(1,837,990)	7,477,789	22,846,606
Net change in fund balances	3,252,158	(450,200)	2,380,979	(2,181,106)	3,001,831
Fund balances - beginning of year	14,549,000	3,630,524	1,462,856	13,336,049	32,978,429
Fund balances - end of year	\$ 17,801,158	\$ 3,180,324	\$ 3,843,835	\$ 11,154,943	\$ 35,980,260

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2006

Net changes in fund balances - total governmental funds	\$ 3,001,831
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount of capital asset additions recorded in the current period.	42,767,534
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Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds.	(3,484,673)
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Revenues from property tax reported in the statement of activities are not available in the governmental funds as they do not provide current financial resources. Therefore, they are not reported as revenue in the governmental funds. This is the change in the amount of the amount deferred on the governmental fund financial statements.	1,098,002
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Long-term compensated absences are reported in the statement of activities, but they do not require the use of current financial resources. Therefore, long-term compensated absences are not reported as expenditures in governmental funds. This is the change in the amount accrued on the governmental fund financial statements.	63,379
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Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(9,441,500)
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Repayment of long-term debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	8,478,510
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Accrued interest expense on long-term debt is recorded in the statement of activities, but they do not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in the governmental funds. This amount represents the change in accrued interest from the prior year.	130,111
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Change in net assets of governmental activities	\$ <u>42,613,194</u>
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CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Changes	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues					
Taxes - sales	20,425,000	(53,494)	20,371,506	21,172,406	800,900
Taxes - property	4,760,000	58,189	4,818,189	4,818,189	-
Taxes - other	1,795,000	142,510	1,937,510	1,962,253	24,743
Intergovernmental	936,000	10,895	946,895	946,895	-
Fines and fees	4,017,825	(728,116)	3,289,709	3,283,489	(6,220)
Licenses and permits	1,898,000	106,005	2,004,005	1,919,059	(84,946)
Investment earnings	270,000	285,000	555,000	538,162	(16,838)
Miscellaneous	1,468,000	377,542	1,845,542	1,891,333	45,791
Total revenues	35,569,825	198,531	35,768,356	36,531,786	763,430
Expenditures					
General government					
Administration	1,792,015	66,369	1,858,384	1,688,400	169,984
City clerk	268,680	430	269,110	257,875	11,235
Code enforcement	762,230	61,190	823,420	735,016	88,404
Commerce & government relations	261,210	81,200	342,410	336,166	6,244
Finance	685,950	1,380	687,330	660,655	26,675
Fiscal control	117,755	220	117,975	110,817	7,158
District court - first division	576,920	965	577,885	508,636	69,249
District court - second division	483,085	790	483,875	459,667	24,208
Legal	514,390	990	515,380	474,469	40,911
Personnel	542,870	740	543,610	404,531	139,079
Planning	515,660	830	516,490	476,610	39,880
Public defender	5,600	-	5,600	5,638	(38)
Vehicle maintenance	763,310	1,305	764,615	752,272	12,343
Total general government	7,289,675	216,409	7,506,084	6,870,752	635,332
Animal shelter	571,770	745	572,515	550,142	22,373
Emergency services	1,389,215	2,340	1,391,555	1,323,533	68,022
Health	457,685	20,366	478,051	424,006	54,045
Main Street Argenta	80,525	36,675	117,200	115,867	1,333
Neighborhood services	138,200	215	138,415	120,223	18,192
Public safety - fire	11,230,930	32,602	11,263,532	11,133,054	130,478
Public safety - police	16,578,775	2,910	16,581,685	15,762,080	819,605
Public works	998,730	1,690	1,000,420	875,657	124,763
Sanitation	4,006,055	143,065	4,149,120	4,044,715	104,405
Senior citizens center	793,255	490	793,745	637,449	156,296
Special appropriations	5,135,010	394,700	5,529,710	4,443,657	1,086,053
Total expenditures	48,669,825	852,207	49,522,032	46,301,135	3,220,897
Excess (deficiency) of revenues over (over) expenditures	(13,100,000)	(653,676)	(13,753,676)	(9,769,349)	3,984,327

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Changes	Final Budget	Actual	Variance Favorable (Unfavorable)
Excess (deficiency) of revenues over (over) expenditures	(13,100,000)	(653,676)	(13,753,676)	(9,769,349)	3,984,327
Other Financing Sources (Uses)					
Transfers in	13,100,000	-	13,100,000	13,100,000	-
Transfers out	-	-	-	(78,493)	(78,493)
Total other financing sources (uses)	13,100,000	-	13,100,000	13,021,507	(78,493)
Net change in fund balance	-	(653,676)	(653,676)	3,252,158	3,905,834
Fund balance - beginning of year	14,549,000	-	14,549,000	14,549,000	-
Fund balance - end of year	<u>\$ 14,549,000</u>	<u>\$ (653,676)</u>	<u>\$ 13,895,324</u>	<u>\$ 17,801,158</u>	<u>\$ 3,905,834</u>

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006

	Business-type Activities Enterprise Fund Electric Department	Internal Service Fund
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,838,073	\$ 706,918
Certificates of deposit	3,000,000	950,000
Restricted cash and cash equivalents	-	844,138
Restricted investments	6,966,702	-
Accounts receivable - net of allowance	3,106,168	182,282
Other receivables	103,301	10,446
Due from other funds	255,352	-
Prepaid items	38,705	29,653
Unbilled revenues	2,799,000	-
Inventories	573,547	-
	<u>23,680,848</u>	<u>2,723,437</u>
Total current assets		
Noncurrent Assets:		
Restricted assets		
Cash and cash equivalents	9,055,069	504,218
Certificates of deposit	-	1,305,862
Accrued interest receivable	366,496	106,283
Investments	18,851,773	-
	<u>28,273,338</u>	<u>1,916,363</u>
Total restricted assets		
Capital assets		
Land and land rights	1,929,441	-
Electric generation system	113,382,824	-
Electric distribution system	67,350,051	-
Machinery and equipment	12,370,655	649,470
Construction in progress	803,206	-
Less: accumulated depreciation	(84,605,739)	(519,210)
	<u>111,230,438</u>	<u>130,260</u>
Property, plant and equipment - net		
Unamortized bond issue costs	1,211,003	-
	<u>140,714,779</u>	<u>2,046,623</u>
Total noncurrent assets		
Total assets	<u>\$ 164,395,627</u>	<u>\$ 4,770,060</u>

See notes to basic financial statements.

	Business-type Activities Enterprise Fund Electric Department	Internal Service Fund
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 4,306,758	\$ 86,703
Accrued expenses and other liabilities	494,817	50,870
Due to other funds	-	258,375
Customer deposits	-	844,138
Revenue bonds payable	7,635,000	-
Accrued interest payable	2,804,271	-
Total current liabilities	<u>15,240,846</u>	<u>1,240,086</u>
Noncurrent Liabilities		
Customer deposits	-	1,813,880
Accrued compensated absences	903,505	200,778
Revenue bonds payable, net of unamortized premium	81,240,000	-
Total noncurrent liabilities	<u>82,143,505</u>	<u>2,014,658</u>
Total liabilities	<u>97,384,351</u>	<u>3,254,744</u>
Net Assets:		
Invested in capital assets, net of related debt	30,533,143	130,260
Restricted - expendable	25,102,571	-
Unrestricted	11,375,562	1,385,056
Total net assets	<u>\$ 67,011,276</u>	<u>\$ 1,515,316</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities Enterprise Fund Electric Department	Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 78,502,694	\$ 2,225,026
Other income	-	32,740
Total operating revenues	<u>78,502,694</u>	<u>2,257,766</u>
OPERATING EXPENSES		
Purchased electricity	38,006,787	-
Generation, transmission and distribution expenses	6,324,829	-
Customer records and collection expenses	2,639,115	2,082,512
Depreciation and amortization	5,128,771	48,097
General and administrative	2,957,905	-
Total operating expenses	<u>55,057,407</u>	<u>2,130,609</u>
Operating Income	23,445,287	127,157
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	1,832,958	57,386
Other income	943,475	-
Interest expense	(5,882,818)	-
Trustee fees	(201,824)	-
Total nonoperating revenues (expense)	<u>(3,308,209)</u>	<u>57,386</u>
Income Before Transfers Out	20,137,078	184,543
Transfers Out	<u>13,959,607</u>	<u>-</u>
Change in net assets	6,177,471	184,543
Net assets at beginning of year	<u>60,833,805</u>	<u>1,330,773</u>
Net assets at end of year	<u>\$ 67,011,276</u>	<u>\$ 1,515,316</u>

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities Enterprise Fund Electric Department	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 79,134,183	\$ 2,239,440
Payments for purchased electricity	(38,813,837)	-
Payments to vendors	(6,221,010)	(530,947)
Payments to employees	(4,404,186)	(1,494,037)
Payments of taxes	(491,932)	-
Other receipts	218,891	-
Net cash provided by (used in) operating activities	<u>29,422,109</u>	<u>214,456</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(13,959,607)	-
Penalty income	724,584	-
Net cash provided by (used in) noncapital financing activities	<u>(13,235,023)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(7,180,000)	-
Purchase of property, plant and equipment	(5,788,820)	(50,144)
Interest paid on long-term debt	(6,107,393)	-
Net cash provided by (used in) capital and related financing activities	<u>(19,076,213)</u>	<u>(50,144)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in deposits	-	220,380
Purchase of investment securities	(48,511,824)	(350,000)
Proceeds from maturities of investment securities	49,299,349	-
Interest on investments	2,248,811	-
Net cash provided by (used in) investing activities	<u>3,036,336</u>	<u>(129,620)</u>
Net increase (decrease) in cash and cash equivalents	147,209	34,692
Cash and cash equivalents at beginning of year	<u>15,745,933</u>	<u>1,176,444</u>
Cash and cash equivalents at end of year	<u>\$ 15,893,142</u>	<u>\$ 1,211,136</u>
Presented on the balance sheet as follows:		
Current assets - cash and cash equivalents	\$ 6,838,073	\$ 706,918
Noncurrent assets - cash and cash equivalents	9,055,069	504,218
	<u>\$ 15,893,142</u>	<u>\$ 1,211,136</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 23,445,287	\$ 184,543
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,128,771	48,097
Other	218,891	-
Changes in operating assets and liabilities		
Accounts and other receivables	438,490	(87,769)
Unbilled revenues	193,000	-
Prepaid items	12,688	(7,056)
Inventory	(30,282)	-
Accounts payable and accrued expenses	15,264	76,641
Net cash provided by (used in) operating activities	<u>\$ 29,422,109</u>	<u>\$ 214,456</u>

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006

	<u>Pension Trust</u> <u>Non-Uniformed</u> <u>Employees</u> <u>Retirement</u> <u>Fund</u>
Assets	
Cash and cash equivalents	\$ 5,819,182
Investments - at fair value	<u>27,431,355</u>
Total assets	<u>\$ 33,250,537</u>
Net Assets	
Held in trust for pension benefits	<u>\$ 33,250,537</u>

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Pension Trust</u> <u>Non-Uniformed</u> <u>Employees</u> <u>Retirement</u> <u>Fund</u>
ADDITIONS	
Contributions:	
Employer and employee contributions	\$ 1,742,415
Total contributions	<u>1,742,415</u>
Investment earnings	<u>621,286</u>
Total additions	2,363,701
DEDUCTIONS	
Pension expense	1,257,648
Trust and administration fees	<u>169,325</u>
Total deductions	<u>1,426,973</u>
NET ASSETS	
Change in net assets	936,728
Net assets at beginning of year	<u>32,313,809</u>
Net assets at end of year	<u>\$ 33,250,537</u>

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2006

			<u>Nonmajor Component Units</u>		
		William F. Laman		Advertising & Promotion Commission	Totals Component Units
	<u>Waste Water Utility</u>	<u>Public Library</u>	<u>Airport Commission</u>		
ASSETS					
Cash and cash equivalents	\$ 724,735	\$ 1,597,078	\$ 199,156	\$ 169,698	\$ 2,690,667
Certificates of deposit	7,170,957	-	-	216,618	7,387,575
Receivables - net	1,312,140	2,105,956	-	29,633	3,447,729
Due from other governments	-	-	2,336	-	2,336
Prepaid expenses	64,277	-	-	-	64,277
Inventories	22,894	-	-	-	22,894
Restricted assets - other	267,460	-	-	-	267,460
Pension fund excess	64,483	-	-	-	64,483
Unamortized portion of bond issue costs	195,793	-	-	-	195,793
Capital assets being depreciated - net	53,821,936	792,070	7,312,239	65,193	61,991,438
Capital assets not being depreciated	1,211,640	398,649	2,082,834	-	3,693,123
Total assets	64,856,315	4,893,753	9,596,565	481,142	79,827,775
LIABILITIES					
Accounts payable	247,085	8,119	-	100	255,304
Other accrued liabilities	1,087,176	-	6,287	-	1,093,463
Notes payable due in less than one year	986,717	-	-	-	986,717
Notes payable due in more than one year	15,950,768	-	-	-	15,950,768
Accrued compensated absences	470,725	34,657	-	6,806	512,188
Total liabilities	18,742,471	42,776	6,287	6,906	18,798,440
NET ASSETS					
Invested in capital assets, net of related debt	38,096,091	1,190,719	9,395,073	65,193	48,747,076
Restricted - expendable	267,460	-	35,865	-	303,325
Unrestricted	7,750,293	3,660,258	159,340	409,043	11,978,934
Total net assets	\$ 46,113,844	\$ 4,850,977	\$ 9,590,278	\$ 474,236	\$ 61,029,335

See notes to basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				Totals Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Waste Water Utility	William F. Laman Public Library	Airport Commission	Advertising & Promotion Commission	
Functions/Programs:									
Governmental activities:									
William F. Laman Public Library	\$ 1,973,628	\$ 53,186	\$ -	\$ -	\$ -	\$ (1,920,442)	\$ -	\$ -	\$ (1,920,442)
Advertising and Promotion	682,927	-	-	-	-	-	-	(682,927)	(682,927)
Total governmental activities	2,656,555	53,186	-	-	-	(1,920,442)	-	(682,927)	(2,603,369)
Business-type Activities									
Waste Water Utility	9,352,685	9,180,794	-	-	(171,891)	-	-	-	(171,891)
Airport Commission	1,101,305	112,005	-	-	-	-	(989,300)	-	(989,300)
Total business-type activities	10,453,990	9,292,799	-	-	(171,891)	-	(989,300)	-	(1,161,191)
Total component units	\$ 13,110,545	\$ 9,345,985	\$ -	\$ -	(171,891)	(1,920,442)	(989,300)	(682,927)	(3,764,560)
General Revenues									
Taxes - property					-	2,031,056	-	-	2,031,056
Taxes - sales					-	189,943	-	676,128	866,071
Investment income					374,673	39,506	176	10,863	425,218
Grants and contributions not restricted to specific programs					511,211	113,059	313,530	-	937,800
Other					4,608	24,343	146,925	28,389	204,265
Total general revenues					890,492	2,397,907	460,631	715,380	4,464,410
Change in net assets					718,601	477,465	(528,669)	32,453	699,850
Net assets at beginning of year					45,395,243	4,373,512	10,118,947	441,783	60,329,485
Net assets at end of year					\$ 46,113,844	\$ 4,850,977	\$ 9,590,278	\$ 474,236	\$ 61,029,335

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of North Little Rock, Arkansas ("the City") is a municipal corporation operating under the authority of Arkansas state statute. The City is governed by an elected nine-member council comprised of the Mayor (elected at large) and eight district City Council members. The City provides a full range of municipal services. These include police and fire protection, emergency medical services, public works (streets and waste collections), public improvements, electric and sewer services, parks and recreation, planning and zoning, social, cultural and general administrative services. The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for state and local governments as defined by the Governmental Accounting Standards Board (GASB). Proprietary funds and similar component units also apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The following is a summary of the significant accounting and reporting policies of the City:

REPORTING ENTITY

The accompanying government-wide financial statements present the financial statements of the City of North Little Rock, Arkansas and its component units. The component units are legally separate entities for which the City is considered to be financially accountable. Financial accountability is defined as the City's substantive appointment of the majority of the component unit's governing board. Furthermore, to be financially accountable, the City must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to or impose specific financial burdens on the City. These component units are further distinguished between blended component units, presented as part of the primary government, and discretely presented component units, presented separately.

The City's defined benefit plan, being fiduciary in nature, was not evaluated as a potential component unit but instead is reported as a fiduciary fund.

The discrete component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City. The City has no blended component units.

Discretely Presented Component Units

Major Component Units:

North Little Rock Waste Water Utility - The North Little Rock Waste Water Utility maintains the City's wastewater facility. The City appoints a majority of the Utility's governing body. The City has the ability to remove appointed members of the Utility's governing body at will.

William F. Laman Public Library Commission - The William F. Laman Public Library Commission operates the public library. The City owns the land and building, and also appoints a majority of the Commission's board.

Other Component Units:

North Little Rock Advertising and Promotion Commission - The North Little Rock Advertising and Promotion Commission was created to promote tourism in the City. The City collects a special tax from hotels and restaurants to subsidize the Commission's operations.

North Little Rock Airport Commission - The North Little Rock Airport Commission operates the municipal airport located within the City. The City appoints a majority of the Commission's board and on an annual basis appropriates funds for personnel, operations, capital expenditures and construction.

The North Little Rock Waste Water Utility and the William F. Laman Public Library issue separately audited financial statements, copies of which may be obtained from the management of those entities.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

Related Organizations

North Little Rock Housing Authority - The North Little Rock Housing Authority was created by state statute and is legally separate from the City. The City appoints the commissioners, however, the City cannot impose its will on the Authority since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the commissioners. The Authority is fiscally independent and no financial benefit or burden relationship exists with the City. Therefore, it is not included in the City's financial statements.

North Little Rock Public Building Authority - The North Little Rock Public Building Authority was created by state statute and is legally separate from the City. The City appoints the board members, however, the City cannot impose its will on the Authority since it does not have the ability to modify or approve the budget or overrule or modify the decisions of the board of directors. The Authority is fiscally independent and no financial benefit or burden relationship exists with the City. Therefore, it is not included in the City's financial statements.

Central Arkansas Water - Effective July 1, 2001, the North Little Rock Water Department and the Little Rock Water Department were merged into Central Arkansas Water. The City appoints a minority of the commissioners and the City cannot impose its will on the entity.

Arkansas Inland Maritime Museum - The Arkansas Maritime Museum is organized as a membership charitable organization under the Internal Revenue Code Section 501(c)(3) to operate a maritime museum. The majority of the initial board of directors were employees of the City. The organization's members will elect subsequent board members. The organization leases the U.S.S. Razorback submarine and the Hoga tugboat from the City for \$1 per year. The organization will be responsible for operations of the museum and maintenance of the vessels.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary fund. Separate statements for each fund (governmental, proprietary and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental are aggregated and reported as nonmajor funds. The City has no nonmajor enterprise funds.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

The City reports the following major governmental funds:

General Fund - The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Baseball Stadium/Hays Center Capital Improvement Fund - This fund accounts for sales tax capital improvement funds related to Dickey-Stephens Park and the Patrick Henry Hays Senior Citizens Center.

Sales Tax Capital Improvement Fund - This fund accounts for sales tax capital improvement funds to be used for the acquisition of capital equipment or construction of capital improvement projects.

The City reports the following major enterprise funds:

North Little Rock Electric Department - This fund accounts for operations of the City's electric utility.

Other funds of the City include the following:

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources, other than expendable trusts or major capital projects, which are legally restricted to expenditures for specified purposes

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by enterprise funds.

Internal Service Fund - The internal service fund is used to account for centralized services provided to enterprise funds. The City's internal service fund consists of the Utility Accounting Department and provides billing and collection services, principally for the Electric Department. The Utility Accounting Department issues separately audited financial statements, copies of which may be obtained from management of the City.

Pension Trust Fund - The pension trust fund accounts for assets held in trust for the Non-Uniformed Employees' Retirement Fund. Plan trustees must act in accordance with the specific purposes and terms of the retirement plan.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide, Proprietary and Fiduciary Funds

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items.

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes; fines and forfeitures; grants, entitlements, and similar items; and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Franchise taxes, other taxes, and fines and forfeitures are recognized as revenues; net of estimated refunds and uncollectible amounts, in the accounting period in which an enforceable legal claim to the assets arises and the uses of resources is required or is first permitted. Grants, entitlements, and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as deferred revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within sixty days after year-end. Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences. Pension expenditures are recognized when amounts are due to a plan.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETS AND BUDGETARY ACCOUNTING

A General Fund annual operating budget is prepared by the Finance Department on an annual basis. The budget reflects revenues expected to be received during the year and expenditures expected to be incurred. The Mayor is required by City and State law to submit the budget to the City Council for approval. The City Council subsequently adopts the budget by City ordinance no later than December 31 of each year. Department expenditures relating to budgeted items may not exceed their appropriated amount without approval. Transfers over budgeted amounts must receive City Council approval. The original budget of the General Fund was amended in 2006. Appropriations for specials projects are made each year by the City Council to finance specific events and capital outlays. These projects are carried forward until they are fully expended or repealed by the City Council's ordinance. Appropriations lapse at the end of each year.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short-term instruments with original maturities at purchase of three months or less. For purposes of the statement of cash flows of the Enterprise and Internal Service Funds, the City considers all liquid investments, including restricted assets, with original maturities of three months or less to be cash and cash equivalents.

INVESTMENTS AND INVESTMENT INCOME

Generally, investments are stated at fair market, cost or amortized cost and are held by the City in various forms as allowed by the laws of the State of Arkansas. The Electric Department carries debt securities with an original maturity of less than one year at amortized cost. All other investments of the Electric Department, the Pension Trust Fund are carried at fair value using quoted market prices. Pension fund investments are carried at fair value using quoted market prices. The Waste Water Utility investments in securities are carried at fair value using quoted market prices. The City records all investment income earned in the respective funds. Investment income includes dividend and interest income, realized gains and losses on investments, and the net change for the year in the fair value of investments carried at fair value.

RESTRICTED ASSETS

Certain funds are held by the Enterprise and Internal Service fund types in accounts restricted for debt service, capital construction, utility operations and maintenance and customer deposits. These funds are invested in certificates of deposits and securities as allowed by state law and the related debt agreements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

INTERFUND RECEIVABLES AND PAYABLES

Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

TRANSACTIONS BETWEEN FUNDS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both the governmental and proprietary funds.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded in the General, Special Revenue, and Proprietary fund types. Receivables are stated at their net realizable value. Where appropriate, an associated allowance for doubtful accounts has been established as follows:

Primary Government:	
Electric Department	\$681,268
Component Units:	
Waste Water Utility	10,000
William F. Laman Public Library	105,591

INVENTORIES

All Governmental-type fund inventories are accounted for using the purchase method, whereby inventories are charged to expenditures when purchased. Governmental inventories are immaterial to the government-wide financial statements. Electric Department inventories are valued at the lower of cost or market using the average cost method. Waste Water Utility inventories are valued at the lower of cost or market using the first-in, first-out method.

PREPAID ITEMS

Prepaid balances are for payments made by the City in the current year for services occurring in the subsequent fiscal year, and a reserve for prepaid items has been recorded to signify that portion of the fund balance is not available for subsequent expenditures.

CAPITAL ASSETS

Capital assets, which include infrastructure assets constructed since 1980, are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

In connection with the adoption of GASB Statement No. 34, City adopted a capitalization policy for infrastructure assets of \$250,000. The City defined machinery and equipment to be capitalized as those assets with value or cost greater than \$2,500 and an estimated useful life greater than one year. Repairs and maintenance are charged to operations as incurred.

Capital assets are depreciated using the straight-line method over their estimated useful lives ranging from 15 to 50 years for infrastructure, 10 to 40 years for buildings, 5 to 50 years for electric plant, 3 to 25 years for land improvements, vehicles, and equipment.

Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

CAPITALIZED INTEREST

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets during the construction period of the related project. Total interest costs incurred by the Electric Department for the year ended December 31, 2006 were \$5,882,818. Total interest costs charged to expense by the Electric Department for the year ended December 31, 2006 were \$5,882,818. There were no interest costs capitalized by the Electric Department for the year ended December 31, 2006. Total interest costs incurred by the Waste Water Utility for the year ended December 31, 2006 were \$592,481. Total interest costs charged to expense by the Waste Water Utility for the year ended December 31, 2006 were \$592,481. There were no interest costs capitalized by the Waste Water Utility for the year ended December 31, 2006.

BOND ISSUE COSTS

Bond issuance costs applicable to the Electric Department and the Waste Water Utility bonds are being amortized over the life of the bonds using a method that approximates the effective interest method.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities, and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Debt premiums, discounts and deferred losses on refundings are generally deferred and amortized using the effective interest rate method. Long-term debt is reported net of the applicable debt premium or discount. Debt issuance costs are deferred and amortized over the life of the related debt using the straight-line method.

Long-term liabilities expected to be financed from governmental fund types are not recorded in the governmental fund financial statements. Payments of principal and interest are recorded as expenditures on the statement of revenues, expenditures and changes in fund balance in the governmental fund financial statements.

In the fund financial statements, governmental fund types recognize debt premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued and premiums received are reported as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

COMPENSATED ABSENCES

All full-time employees accumulate vacation and sick leave benefits in varying amounts based upon length of service. Upon termination or retirement, employees are paid for unused, accumulated amounts up to specified maximums. All compensated absences are accrued when incurred in the government-wide financial statements and proprietary fund financial statements. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee terminations, resignations and retirement.

DEFERRED REVENUE

Deferred revenue consists mainly of unavailable property taxes.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NET ASSETS/FUND BALANCE

Net assets of the City are classified in four components and represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction, or improvements of those assets, and adding back unspent proceeds.

Restricted expendable assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the City, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.

Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the City, such as permanent endowments. The City has no restricted nonexpendable net assets at December 31, 2006.

Unrestricted assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable net assets

When both restricted and unrestricted resources are available for use, generally it is the City's policy to use unrestricted resources first. .

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

In the fund financial statements, the City records reserves to indicate the portion of fund balances that is legally segregated for a specific use. Designations of fund balance represent amounts designated by management that are not legally binding.

NOTE 2 - DEPOSITS AND INVESTMENTS

DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statute requires that deposits in financial institutions be collateralized with federal depository insurance and bonds or other interest-bearing securities of the United States, the State of Arkansas, Arkansas political subdivisions or agencies or instrumentalities of these entities. The City follows state statute as a matter of policy in relation to custodial credit risk.

Deposits of the City's reporting entity are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or its agent in the name of the City or applicable public trust.

At December 31, 2006, City's Electric Department's bank balances included \$194,130 that was uninsured and uncollateralized.

At December 31, 2006, none of the City's component unit bank balances of were exposed to custodial credit risk.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

INVESTMENTS

Arkansas statutes authorize the City to invest in direct obligations of the U.S. Government; obligations on which the principal and interest are fully guaranteed, or are fully secured, insured, or covered by commitments or agreements to purchase by the U.S. Government; obligations of agencies and instrumentalities created by acts of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. Government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. Government, any U.S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the Investment Company Act of 1940, and which is considered a money market fund, provided that the portfolio is limited principally to U.S. Government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposits.

Arkansas statutes also authorize the City to invest no more than 20 percent of its capital base in corporate debt obligations; revenue bond issues of any U.S. state, municipality, or political subdivision; industrial development bonds for corporate obligors issued through any U.S. state or political subdivision; securities or interest in an open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940 with certain limitations; securities or interests issued, assumed, or guaranteed by certain international banks; and uninsured demand, savings, or time deposits or accounts of any depository institution chartered by the United States, any U.S. state, or the District of Columbia. The pension trust funds are authorized to also invest in common stocks, investment grade corporate bonds, and other appropriate securities.

As of December 31, 2006, the primary government of the City had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Common trust funds/money markets	< than 1 year	\$ 12,785,883
U.S. Treasury obligations	6-10 years	506,670
U.S. Agencies obligations	< than 1 year	3,024,496
U.S. Agencies obligations	1-5 years	7,390,113
U.S. Agencies obligations	6-10 years	15,811,805
U.S. Agencies obligations	> than 10 years	319,407
		<u>39,838,374</u>
Mutual funds		3,813,957
Common stock		9,465,341
Corporate bonds and notes		<u>3,418,042</u>
Total		\$ <u>56,535,714</u>

Interest Rate Risk - The Electric Department has no formal policy to limit its exposure to fair value losses arising from rising interest rates. The pension trust funds investment policies address interest rate risk by managing asset allocation.

Credit Risk - Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Provisions of debt agreements require that investments by the Electric Department in government obligations not directly guaranteed by the U.S. Government be rated no less than Aa by Moody's and AA by Standard and Poor's. At December 31, 2006 the Electric Department's investments in U.S. agencies obligations not directly guaranteed by the U.S. Government were rated Aaa by Moody's Investors Services.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
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Custodial Credit Risk - For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the underlying securities for the Electric Department's investments at December 31, 2006 are held by the Electric Department's agent in the agent's name.

Concentration of Credit Risk - The City places no limit on the amount that the City may invest in any one issuer. At December 31, 2006, the City's investments in U.S. agencies obligations of \$27,052,491 represented obligations of one issuer and constituted 48% of its total investments.

Foreign Currency Risk - The City has no foreign currency risk as all investments are in U.S. dollar-denominated assets.

SUMMARY OF CARRYING VALUES

Carrying Value:	
Deposits	\$ 51,330,356
Investments	<u>59,069,012</u>

Totals	\$ <u>110,399,368</u>
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Included in the following statement of net assets captions:

Cash and cash equivalents	\$ 35,671,069
Certificates of deposit	3,950,000
Restricted cash and cash equivalents	10,403,425
Restricted certificates of deposit	1,305,862
Restricted investments	25,818,475
Cash and investments - fiduciary fund	<u>33,250,537</u>

Totals	\$ <u>110,399,368</u>
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NOTE 3 - CAPITAL ASSETS

Following is a summary of changes in the capital assets of governmental activities:

	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006
GOVERNMENTAL ACTIVITIES:				
Capital Assets, non-depreciable:				
Land and land rights	\$ 3,084,789	\$ 6,433,760	\$ -	\$ 9,518,549
Construction in progress	<u>6,160,130</u>	<u>23,357,255</u>	<u>(3,953,712)</u>	<u>25,563,673</u>
Total capital assets, non-depreciable	<u>9,244,919</u>	<u>29,791,015</u>	<u>(3,953,712)</u>	<u>35,082,222</u>
Capital Assets, depreciable:				
Infrastructure	13,710,401	1,868,863	-	15,579,264
Buildings	34,590,769	4,347,815	-	38,938,584
Vehicles	14,745,101	1,424,106	(662,143)	15,507,064
Equipment	9,976,423	1,845,568	(651,947)	11,170,044
Ships and watercrafts	<u>2,651,764</u>	<u>1,198,749</u>	<u>-</u>	<u>3,850,513</u>
Total capital assets, depreciable	75,674,458	10,685,101	(1,314,090)	85,045,469
Less: accumulated depreciation:	<u>(40,540,517)</u>	<u>(3,484,673)</u>	<u>1,196,806</u>	<u>(42,828,384)</u>
Net capital assets, depreciable	<u>35,133,941</u>	<u>7,200,428</u>	<u>(117,284)</u>	<u>42,217,085</u>
Total governmental activities - net	\$ <u>44,378,860</u>	\$ <u>36,991,443</u>	\$(<u>4,070,996</u>)	\$ <u>77,299,307</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

Following is a summary of changes in the capital assets of business-type activities:

	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006
BUSINESS-TYPE ACTIVITIES				
Capital Assets, non-depreciable:				
Land and land rights	\$ 1,929,441	\$ -	\$ -	\$ 1,929,441
Construction in progress	<u>626,069</u>	<u>177,137</u>	<u>-</u>	<u>803,206</u>
Total capital assets, non-depreciable	<u>2,555,510</u>	<u>177,137</u>	<u>-</u>	<u>2,732,647</u>
Capital Assets, depreciable:				
Electric generation system	113,005,133	377,691	-	113,382,824
Electric distribution system	63,354,324	4,666,948	(671,221)	67,350,051
Machinery and equipment	<u>12,136,595</u>	<u>886,767</u>	<u>(3,237)</u>	<u>13,020,125</u>
Total capital assets, depreciable	188,496,052	5,931,406	(674,458)	193,753,000
Less: accumulated depreciation:	<u>(80,495,436)</u>	<u>(5,303,971)</u>	<u>674,458</u>	<u>(85,124,949)</u>
Net capital assets, depreciable	<u>108,000,616</u>	<u>627,435</u>	<u>-</u>	<u>108,628,051</u>
Total business-type activities, net	<u>\$ 110,556,126</u>	<u>\$ 804,572</u>	<u>\$ -</u>	<u>\$ 111,360,698</u>

Following is a summary of changes in the capital assets of component units:

	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006
COMPONENT UNITS:				
Capital Assets, non-depreciable:				
Land and land rights	\$ 2,776,239	\$ -	\$ -	\$ 2,776,239
Construction in progress	<u>177,803</u>	<u>972,867</u>	<u>(233,786)</u>	<u>916,884</u>
Total capital assets, non-depreciable	<u>2,954,042</u>	<u>972,867</u>	<u>(233,786)</u>	<u>3,693,123</u>
Capital Assets, depreciable:				
Buildings and building improvements	2,847,437	19,957	-	2,867,394
Infrastructure - Airport	16,255,411	-	-	16,255,411
Plant and equipment - Waste Water	88,289,604	835,561	(98,984)	89,026,181
Equipment	1,488,854	42,487	-	1,531,341
Vehicle	<u>50,754</u>	<u>10,000</u>	<u>-</u>	<u>60,754</u>
Total capital assets, depreciable	108,932,060	908,005	(98,984)	109,741,081
Less: accumulated depreciation	<u>(45,039,356)</u>	<u>(2,809,271)</u>	<u>98,984</u>	<u>(47,749,643)</u>
Net capital assets, depreciable	<u>63,892,704</u>	<u>(1,901,266)</u>	<u>-</u>	<u>61,991,438</u>
Total component units, net	<u>\$ 66,846,746</u>	<u>\$ (928,399)</u>	<u>\$ (233,786)</u>	<u>\$ 65,684,561</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government

Administrative	\$ 30,891
City clerk	2,315
Code enforcement	28,949
Commerce and government relations	5,499
Community planning	11,162
District courts	4,386
Finance	2,972
Fiscal control	679
General government	306,059
Health	22,268
Human resources - Personnel	2,149
Legal - city attorney	1,672
Vehicle maintenance	<u>20,246</u>

Total general government 439,247

Culture and recreation - parks and recreation	255,088
Culture and recreation - senior citizens center	130,027
Community development - housing and neighborhood programs	3,844
Health and sanitation - animal shelter	14,134
Health and sanitation - sanitation department	131,918
Public safety - emergency services	14,459
Public safety - equitable sharing	22,302
Public safety - Fire	437,842
Public safety - Police	833,092
Public works	50,403
Streets and traffic	<u>1,152,317</u>

Total depreciation expense - governmental activities 3,484,673

Business-type activities:

Electric Department	<u>5,255,874</u>
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Total depreciation expense - business type activities 5,255,874

Total depreciation expense - primary government \$ 8,740,547

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended December 31, 2006:

<u>Type of Debt</u>	<u>Balance December 31, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2006</u>	<u>Amounts Due within One Year</u>
Governmental activities:					
Revenue bonds	\$ 415,000	\$ -	\$ (130,000)	\$ 285,000	\$ 140,000
Notes payable	12,604,626	9,441,500	(8,348,510)	13,697,616	2,634,956
Compensated absences	<u>3,565,472</u>	<u>-</u>	<u>(63,379)</u>	<u>3,502,093</u>	<u>-</u>
Total governmental activities	\$ <u>16,585,098</u>	\$ <u>9,441,500</u>	\$ <u>(8,541,889)</u>	\$ <u>17,484,709</u>	\$ <u>2,774,956</u>
Business-type activities:					
Revenue bonds	\$ 96,055,000	\$ -	\$ (7,180,000)	\$ 88,875,000	\$ 7,635,000
Compensated absences	<u>1,154,126</u>	<u>-</u>	<u>(49,843)</u>	<u>1,104,283</u>	<u>-</u>
Total business-type activities	\$ <u>97,209,126</u>	\$ <u>-</u>	\$ <u>(7,229,843)</u>	\$ <u>89,979,283</u>	\$ <u>7,635,000</u>
Component units:					
Waste Water Utility					
Revolving loan	\$ 17,891,137	\$ -	\$ (953,652)	\$ 16,937,485	\$ 986,717
Compensated absences	<u>470,725</u>	<u>-</u>	<u>(27,959)</u>	<u>442,766</u>	<u>-</u>
Total component units	\$ <u>18,361,862</u>	\$ <u>-</u>	\$ <u>(981,611)</u>	\$ <u>17,380,251</u>	\$ <u>986,717</u>

Bonds and notes payable at December 31, 2006 were as follows:

GOVERNMENTAL ACTIVITIES

1993 Capital Improvement Refund Revenue Bonds,
Original issue \$1,645,000, interest rates of 4.45% - 5.20%, maturity 2008 \$ 285,000

Short-term Financing Obligations:

2003 Series, original issue \$930,519, interest rate 3.14%, maturity 2008	306,437
2004 Series, original issue \$4,000,000, interest rate 2.26%, maturity 2009	4,000,000
2005 Series, original issue \$455,000, interest rate 3.73%, maturity 2010	327,191
2005-2 Series, original issue \$3,500,000, interest rate 3.38%, maturity 2010	2,567,488
2005-3 Series, original issue, \$2,300,000 interest rate 3.38%, maturity 2010	2,300,000
2006 City of North Little Rock Promissory Note	4,196,500

BUSINESS-TYPE ACTIVITIES

1992A Electric System Refunding Revenue Bonds,
Interest rates of 3.70% - 6.50%, maturity 2015 77,565,000

1997 Electric System Revenue Refunding Bonds,
Interest rates of 4.45% - 5.20%, maturity 2012 11,310,000

COMPONENT UNITS

Revolving loans, interest rates of 2.25% - 4.0%, maturity variable \$ 16,937,485

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

GOVERNMENTAL ACTIVITIES:

Revenue Bonds:

1993 Capital Improvement Refunding Revenue Bonds - The \$1,645,000 of bonds were issued to refinance the Capital Improvement Revenue Bonds (Jail Expansion and Renovation Project) Series 1988. The Series 1993 bonds are special obligation bonds of the City, payable solely from all fines, bond forfeitures and costs levied and collected by the municipal courts and are further secured by a mortgage lien on a portion of the project premises. Pulaski County assumed the jail and reimburses the City for principal and interest payments. Principal payments are due annually on October 1 with a final payment scheduled in 2008. Interest payments are due semiannually on April 1 and October 1.

Notes Payable:

In 2001, the State of Arkansas passed Amendment No. 78 and Act No. 1808, allowing cities and counties to obtain short-term financing agreements for the purpose of acquiring, constructing, installing or renting real property or tangible personal property having an expected useful life of more than one year. These financing agreements may not mature over a period to exceed five years and may have fixed or variable interest rates to be repaid with general revenues.

Short Term Financing Obligations, Series 2003 - The \$930,519 of notes were issued to finance the cost of acquiring five Sterling Chassis with McClain Packer refuse collection trucks and four Sterling Chassis with Peterson Knuckleboom loaders/dumpbodies trucks. The notes are secured by the equipment and are general obligations secured by the full faith, credit, and resources of the City. The notes are payable in monthly installments of \$18,500, including principal and interest at 3.14%. The final payment is due May 15, 2008.

Short Term Financing Obligations, Series 2004 - The \$4,000,000 note was issued to make improvements to certain City facilities and purchase certain park equipment. The note is not secured by any lien or security interest in any physical properties. The note is a general obligation secured by the full faith, credit, and resources of the City. Interest only payments of \$7,533 are due monthly commencing March 31, 2004 through February 1, 2007. Commencing March 1, 2007 monthly payments of \$170,619, including principal and interest at 2.26% are due with the final payment due February 1, 2009.

Short Term Financing Obligations, Series 2005 - The \$455,000 note was issued to purchase certain computer police software. The note is not secured by any lien or security interest in any physical properties. The note is a general obligation secured by the full faith, credit, and resources of the City. Monthly payments of \$8,324, including principal and interest at 3.73%, are due monthly commencing July 13, 2005 with the final payment due June 13, 2010.

Short Term Financing Obligations, Series 2005-2 - The \$3,500,000 note was issued to finance all or a portion of cost for facilities improvement and equipment for the Parks and Recreation Department. The note is not secured by any lien or security interest in any physical properties. The note is a general obligation secured by the full faith, credit, and resources of the City. Monthly payments of \$63,483, including principal and interest at 3.38%, are due monthly commencing August 20, 2005 with the final payment due July 20, 2010.

Short Term Financing Obligations, Series 2005-3 - The \$2,300,000 note was issued to acquire, construct and install improvements to the North Heights Community Center and the Health Department and acquire a fire truck. The note is not secured by any lien or security interest in any physical properties. The note is a general obligation secured by the full faith, credit, and resources of the City. Interest only payments of \$78,956 are due annually commencing November 1, 2006 and the same day each year thereafter until November 3, 2010, at which time all unpaid principal and accrued interest will be due and payable.

2006 City of North Little Rock, Arkansas Promissory Note - The \$12,000,000 revolving line of credit was issued for the purpose of acquiring, constructing, and installing land, buildings, improvements, parking improvements, furniture, fixtures, equipment and other tangible real and personal property. The proceeds have been used to assist in construction of the baseball stadium. Accrued interest shall be due and payable monthly in arrears, commencing on March 1, 2006, and continuing on the first day of each month thereafter, on January 31, 2008 a final installment of the entire outstanding principal balance plus all accrued and unpaid interest shall be payable. The note may be prepaid in part or in full without penalty

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

BUSINESS-TYPE ACTIVITIES:

Series 1992A Electric System Refunding Bond - The 1992 bonds were issued to advance refund and defease bonds which were used to construct the hydroelectric generating facility on the Arkansas River at Murray Lock and Dam near North Little Rock. Electricity generated by the facility is used to supplement electricity purchased. The bonds require annual sinking fund payments sufficient to redeem principal plus interest. The bonds are not redeemable at the City's option.

Series 1997 Electric System Revenue Refunding Bond - The 1997 bonds were issued to advance refund and defease a portion of the Series 1992 Bonds. The proceeds of the 1997 Series Bonds, together with other monies, were deposited into an irrevocable escrow fund pursuant to an escrow deposit agreement between the City and Cede & Company, an escrow agent, in an amount sufficient, together with investment income thereon, to pay principal and interest of a portion of the Series 1992 Bonds as they become due at maturity or earlier redemption. The bonds require annual sinking fund payments sufficient to redeem principal and interest. The bonds are redeemable at the City's option, as a whole or in part, at 102% of the principal amount beginning January 1, 2008, and in declining percentages thereafter.

The Series 1992 and Series 1997 Bonds are collateralized by a pledge of electric system revenues, the funds created under the indenture and all monies and investments held therein. The major provisions of the bond indentures are as follows:

Rates: The City will maintain electric rates sufficient to produce net revenues equal to at least 125% of the annual debt service. Net revenues are defined as all revenues derived from operations of the electric system, including profits from all funds maintained under bond indenture except the project fund, less extraordinary income items and after reduction of normal operating expenses.

Revenue Fund: All revenues derived from the operation of the electric system shall be deposited in this fund. Revenues deposited shall be expended into the following funds in the following order of priorities:

Operation and Maintenance Fund: On the next to the last business day of each month, there shall be paid to this fund an amount sufficient to pay the reasonable monthly expenses of operations, repair and maintenance of the electric system.

Revenue Bond Fund: On the next to the last business day of each month, there shall be paid to this fund a sum equal to one-sixth of the next installment of interest, one-twelfth of the next installment of principal, the estimated fees for the trustee for the then current month plus one-twenty-fourth of the debt service reserve requirement until such time as there is accumulated in the fund an amount equal to the maximum annual debt service on all bonds outstanding.

Reserve and Contingency Fund: On the next to the last business day of each month, there shall be paid to this fund the lesser of 2% of pledged revenues derived from the operation of the electric system or an amount sufficient to create a balance in the fund of the greater of \$8,000,000, 10.0% of pledged revenues for the most recent fiscal year for which an audit has been completed, or 10% of pledged revenues budgeted for the then current fiscal year. Pledged revenues are defined generally as all revenues derived from the operation of the electric system, investment income, and among other things, the proceeds of insurance, litigation and condemnation awards. Monies in this fund may be used in the event that there are increases in the amount of purchased power required for the electric system or other increases in operations and maintenance due to the output of the hydroelectric project being less than expected as a result of high and/or low water conditions.

Depreciation Fund: On the next to the last business day of each month, there shall be paid into this fund an amount equal to 2% of the pledged revenues derived from the operation of the electric system until there shall be accumulated and maintained in the fund an amount equal to the greater of \$7,500,000 or 5% of the total assets of the electric system. Monies in this fund shall be used solely for paying the cost of replacements made necessary by the depreciation of the electric system and for the acquisition of capital assets of the system. Any surplus accumulated in the Depreciation Fund may be paid into the Revenue Fund.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
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Surplus Funds: Any surplus in the Revenue Fund after making all disbursements and making all required deposits described above including the correction of any deficiencies, may be used for any lawful municipal purpose including early redemption of outstanding bonds or for the construction of extensions, betterments and improvements to the City's electric system.

Tax Exemption – The Internal Revenue Code, as amended by the Tax Reform Act of 1986, imposes a number of requirements that must be satisfied in order for interest on state and local obligations, such as the Series 1992 and 1997 Bonds, to be excludable from gross income of the bond holders for federal income tax purposes. Those requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on investment of bond proceeds prior to expenditure and a requirement that the issuer file information reports with the Internal Revenue Service. There is also a requirement that earnings on the investment of bond proceeds in excess of the amount that would have been earned, if the yield was equal to the yield on the bond issue, be paid periodically to the U.S. Treasury. The Electric Department does not anticipate that any rebates will be due relating to 2006 or prior years.

DISCRETELY PRESENTED COMPONENT UNITS:

Waste Water Utility Revolving Loans

The Waste Water Utility loan payable consists of draws against revolving loan funds from the Arkansas Department of Pollution Control and Ecology administered by the Arkansas Development Finance Authority. The funds are to be used for improvements to publicly owned sewage treatment facilities. The loans are secured by the projects for which the funds are used and a pledge of the Utility's sewer revenues.

The Utility received a \$2,700,000 award in 1991 available for approved construction. The program award was revised from \$2,700,000 to \$1,344,749 at completion of approved construction in 1994. Repayment of the 1991 loan began in October of 1994 with payments to be made semi-annually over 20 years, including interest at 4%.

The Utility received two program awards aggregating \$11,000,000 in 1995 available for approved construction with interest only and financing fee payments due semi-annually until October 15, 2000. The interest rate on the 1995 revolving loan fund loans is at 2.5% and the financing fee is 1% of outstanding principal. Repayments of the 1995 loan began in October of 1998 with payments to be made semi-annually over twenty years, including interest.

In 2001, the Utility received a \$10,000,000 program award available for approved construction. The interest rate on the 2001 revolving loan fund is at 2.25% and a financing fee at 1% of the outstanding principal with semi-annual payments of interest and financing fee during the construction period. Repayment principal, interest and financing fee of the 2001 loan began in October 2005 with payments to be made semi-annually over twenty years.

CITY OF NORTH LITTLE ROCK, ARKANSAS
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DECEMBER 31, 2006

ANNUAL DEBT SERVICE REQUIREMENTS:

The following schedule shows the annual debt service requirements to pay principal and interest on the revenue bonds and notes payable outstanding at December 31, 2006. Principal and interest are also disclosed for component units as follows:

REVENUE BONDS PAYABLE

Governmental Activities

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 140,000	\$ 14,680	\$ 154,680
2008	<u>145,000</u>	<u>7,540</u>	<u>152,540</u>
Total	\$ <u>285,000</u>	\$ <u>22,220</u>	\$ <u>307,220</u>

REVENUE BONDS

Business-type Activities

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,635,000	\$ 5,584,199	\$ 13,219,199
2008	8,115,000	5,104,136	13,219,136
2009	8,625,000	4,593,186	13,218,186
2010	9,170,000	4,048,780	13,218,780
2011	9,745,000	3,469,130	13,214,130
2012-2015	<u>45,585,000</u>	<u>6,962,941</u>	<u>52,547,941</u>
Total	\$ <u>88,875,000</u>	\$ <u>29,762,372</u>	\$ <u>118,637,372</u>

NOTES PAYABLE

Governmental Activities

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,634,956	\$ 248,946	\$ 2,883,902
2008	7,104,162	172,089	7,276,251
2009	1,169,818	112,063	1,281,881
2010	<u>2,788,680</u>	<u>84,459</u>	<u>2,873,139</u>
Total	\$ <u>13,697,616</u>	\$ <u>617,557</u>	\$ <u>14,315,173</u>

REVOLVING LOANS

Component Units

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 986,717	\$ 564,879	\$ 1,551,596
2008	1,020,933	530,684	1,551,617
2009	1,056,341	495,255	1,551,596
2010	1,092,980	458,513	1,551,493
2011	1,130,894	422,901	1,553,795
2012-2016	6,015,195	1,501,661	7,516,856
2017-2021	4,004,972	568,004	4,572,976
2022-2024	<u>1,629,453</u>	<u>80,289</u>	<u>1,709,742</u>
Total	\$ <u>16,937,485</u>	\$ <u>4,622,186</u>	\$ <u>21,559,671</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 5 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables consisted of the following as of December 31, 2006:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 561,125	\$ 3,855,243
Special Revenue Funds	-	272,350
Debt Service Funds	-	-
Capital Projects Fund	<u>4,017,674</u>	<u>451,206</u>
Total	\$ <u>4,578,799</u>	\$ <u>4,578,799</u>

The outstanding balances between funds result mainly from the time lag between the dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between the funds are made.

Interfund transfers in and transfers out consisted of the following as of December 31, 2006:

	Transfers In	Transfers Out
General Fund:		
Enterprise Fund	\$ <u>13,100,000</u>	\$ <u>254,500</u>
Total General Fund	<u>13,100,000</u>	<u>254,500</u>
Special Revenue Funds:		
Capital Projects Funds	-	1,018,005
Enterprise Fund	<u>250,000</u>	-
Total Special Revenue Funds	<u>250,000</u>	<u>1,018,005</u>
Debt Service Funds:		
Capital Projects Funds	<u>8,186,820</u>	-
Total Debt Service Funds	<u>8,186,820</u>	-
Capital Projects Funds:		
General Fund	254,500	
Special Revenue Funds	1,018,005	-
Debt Service Funds	<u>-</u>	<u>8,186,820</u>
Total Capital Projects Funds	<u>1,272,505</u>	<u>8,186,820</u>
Enterprise Fund:		
General Fund	-	13,100,000
Special Revenue Funds	<u>-</u>	<u>250,000</u>
Total Enterprise Fund	<u>-</u>	<u>13,350,000</u>
Totals	\$ <u>22,809,325</u>	\$ <u>22,809,325</u>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) pay debt service in accordance with contractual or budgetary authorizations.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 - PENSION PLANS

Substantially all of the City's employees receive retirement benefits. The City sponsors two single employer defined benefit plans and also contributes to the Arkansas Local Police and Fire Combined Retirement Plans ("LOPFI"), a statewide agent multiple-employer defined benefit pension plan. The plans are maintained in legally separate trusts and each Plan's assets may be used only for the payment of benefits to the members of that Plan or their beneficiaries in accordance with the terms of the Plan. Separate financial reports are not issued on each plan.

Summary of Significant Accounting Policies

Basis of Accounting

The City of North Little Rock's financial statements for its defined benefit plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. City contributions to each Plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the each Plan.

Method Used to Determine Fair Value of Investments

The fair value of investments other than mutual funds is determined using quoted market prices. The fair value of investments in mutual funds is determined using the fund's current per share price.

Plan Descriptions and Funding Information

The Non-uniformed Employees Retirement Fund ("Non-uniformed Plan") is a single-employer, defined benefit plan established under Arkansas state law. Plan assets are administered by an independent fiduciary agent, but governed by a Board of Trustees. The Non-uniformed Plan provides retirement, disability, and survivor benefits to all regular, full time, non-uniformed employees of the City, including persons who are elected to office by the people. The amount of benefits to be paid to any participant depends solely on amounts contributed to the plan plus investment earnings.

The plan requires that employees contribute four percent of covered wages. The City is required to contribute six percent of covered payroll each pay period. Participants become partially vested in employer contributions and investments credited to their account after five years of employment and fully vested after ten years. Non-vested City contributions and investment earnings are forfeited when participants leave covered employment and are transferred to a separate account that may be used to reduce City contributions. During 2006 and 2005, employer and employee contributions to the plan were \$1,742,415 and \$1,708,187 respectively.

Municipal Judges' Retirement Fund

In accordance with Act 1374 of 2003, the Arkansas District Judges Retirement System (ADJRS) was established in 2004, and the City's local plan was subsequently abolished. The Plan is being administered by the Arkansas Public Employee's Retirement System. The City's unfunded liability as of December 31, 2006 was approximately \$2,225,377 for the district court personnel who were covered by the local fund at abolishment, and this amount will be amortized over a 30 year period. The City paid the initial installment of approximately \$177,560 in December of 2006.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

Agent Multiple-Employer Defined Benefit Pension Plan

The Arkansas Local Police and Fire Combined Retirement Plans ("LOPFI") is a state-wide agent multiple-employer retirement program that provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the state of Arkansas. LOPFI was created by ACT 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981 are eligible to participate in the plan. Effective June 30, 1995, administration of the City of North Little Rock's pension funds related to police and fire personnel was transferred to the State of Arkansas. Accordingly, financial statements of those funds are no longer part of the City's financial statements. Upon transfer of these pension funds, essentially all uniformed employees of the City's police and fire departments became participants in LOPFI. LOPFI issues a publicly available financial report, which may be obtained by contacting the following:

Arkansas Local Police and Fire Retirement System
P.O. Drawer 34164
Little Rock, Arkansas 72203
(501) 682-1745

Contributions requirements are set forth in Arkansas statute. LOPFI members are required to contribute six percent of their annual covered salary, 4% if covered by Social Security. The City is required to contribute at an actuarially determined rate. For policemen, this was 11.63% for employer normal cost for LOPFI benefits and 8.35% for unfunded accrued liabilities for a total of 19.98%. and for firemen, the rate was 14.81% for employer normal cost for LOPFI benefits and 11.14% for unfunded accrued liabilities for a total of 25.95%.

For 2006, the City's annual pension cost was \$1,521,818 for policemen and \$1,609,587 for firemen, which was equal to the required and actual contributions. Neither Plan had a net pension obligation (NPO). The required contributions were determined as part of the December 31, 2006 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions effective for the 2006 valuation included (a) a rate of return on the investment of present and future assets of 8.0 percent per year, (b) projected salary increases of 4.0 percent per year, compounded annually, attributable to wage inflation, (c) additional projected salary increases ranging from 0 percent to 5.1 percent per year, depending upon age, attributable to seniority/merit, (d) the assumption that benefits will increase 3 percent per year after retirement (3 percent every other year for Local Relief and Pension Fund members), and (e) pre- and post-retirement mortality based on the 1983 Group Annuity Mortality table set forward one year for men and one year for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of valuation payrolls. The amortization period at December 31, 2006 was 30 years for policemen and 30 years for firemen.

Schedule of Funding Progress for LOPFI - Policemen

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$14,026,616	\$22,699,943	\$ (8,673,327)	62%	\$8,529,097	102%
12/31/05	\$13,022,546	\$22,413,601	\$ (9,391,055)	58%	\$8,882,464	106%
12/31/06	\$13,032,873	\$26,357,602	\$ (13,324,729)	49%	\$8,713,534	153%

**CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Schedule of Funding Progress for LOPFI - Firemen

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$ 8,145,202	\$18,732,427	\$ (10,587,225)	43%	\$6,885,654	154%
12/31/05	\$ 6,735,872	\$18,733,716	\$ (11,997,844)	36%	\$7,057,620	170%
12/31/06	\$9,432,130	\$23,269,988	\$ (13,837,858)	41%	\$6,779,650	204%

Component Pension Plans - Waste Water Utility

The North Little Rock Waste Water Utility Defined Pension Plan is a single-employer sponsored plan administered by the Waste Water Utility. The Plan provides retirement, death, and disability benefits to plan members and beneficiaries. The Utility's Board of Commissioners establishes benefit provisions and all other requirements. The Plan does not issue stand alone financial statements, nor is it included in another public employee retirement system plan's financial statements. Participants are not required to contribute to the Plan. The Waste Water Utility is required to contribute to the Plan at an actuarially determined rate. The rate was 11.20% for the year ended December 31, 2006. Further information is included in the audited financial statements of the Waste Water Utility, audited by other auditors, and is not presented in this report.

NOTE 7 - POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The City allows retiring employees to continue their coverage in the City's group health insurance plan for varying lengths of time if they pay the full cost of the coverage. In addition, retiring employees are permitted to convert their group life insurance coverage to an individual policy at their own expense. These benefits are funded and the related expenditures/expenses are recognized on a "pay-as-you-go" basis. These post-retirement benefits resulted in an immaterial cost to the City in 2006.

NOTE 8 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The City funds all amounts of compensation deferred under the Plan, at the direction of the covered employee (through payroll deductions), through investments in the United States Conference of Mayors Deferred Compensation Program maintained by PEBSCO and Citistreet. All assets of the Plans, (including all deferred amounts, property and rights purchased with deferred amounts, and all income attributable to such deferred amounts, property or rights), have been placed in trust and therefore, are no longer included in the government-wide or governmental funds financial statements of the City.

**CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 9 - PROPERTY TAXES RECEIVABLE, DEFERRED REVENUE, AND PROPERTY TAX CALENDER

Property taxes are assessed, collected and remitted to City by Pulaski County. Taxes are levied on October 1 on the assessed value listed as of January 1 of that year for all real and personal property located in the City. Taxes are due and payable on the first Monday in January after the levy and become delinquent after October 10. The majority of collections occur between March and December; as a result, the property tax is not collected within the time frame necessary to finance the liabilities of the current period.

In the governmental funds, property taxes are measurable when levied even though they are not available, and as a result, property taxes receivable and a corresponding deferred revenue are recorded on the levy date. In the government-wide financial statements, property taxes receivable and related revenues are recorded on the levy date.

Accordingly, a receivable, net of allowance for doubtful accounts and a related revenue in the amount of \$5,650,922 has been recognized in the government-wide financial statements, while a receivable of \$5,650,922 and a related deferred revenue of \$5,650,922 have been recognized in the governmental fund statements.

Millage rates for 2006 taxes collectible in 2007 were 5.00 for the General Fund, 3.00 for the Library, 1.00 for the Police pension, 1.00 for the Fire pension and 1.45 for the Street Fund.

NOTE 10 - INSURANCE COVERAGE

The City is exposed to various risks of losses related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains insurance coverage through the Arkansas Municipal League (the "Pool"), which is an association of local governments, covering each of the above risks of loss. The City pays an annual premium to the Pool. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts. Management believes the coverage is adequate to preclude any significant uninsured risk exposure to the City.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the normal course of operations, the City participates in several federal and state financial assistance programs. The financial assistance programs are subject to audit by granting agencies, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The City's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended by the Single Audit Act of 1996. Any liability for reimbursement that may arise, as the results of audits by the granting agencies, are not believed to be material by management.

In 2006 and previous years, the City has made special appropriations to the Central Arkansas Transit Authority ("CATA") to finance its operating deficits. The City could continue to be required to fund CATA's operating deficits if the current level of services is to be maintained in the future.

The Electric Department entered into a contract with Duke Energy effective from July 1, 2005 through March 31, 2007, to purchase power at \$37.95 per megawatt hour.

On June 26, 2006, the City Council approved a three-year power supply contract with Constellation Energy beginning April 1, 2007, at an average price over the contract term of \$79.77 per megawatt hour.

The City has an agreement with Entergy whereby Entergy has interconnected its transmission facilities with the City's facilities to transmit the hydroelectric power and energy generated at the Murray Hydroelectric Plant to the City's system. The agreement was effective when the Plant became operational in November of 1988. The term of the agreement will continue as long as the City is authorized to operate the Plant, unless terminated earlier by either party with not less than sixty months advance written notice. Rates are determined based upon agreed formulas, with billings to be made on a monthly basis.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

The Electric Department is a party to the revenue bonds, which the City sold to finance the construction of the North Little Rock Hydroelectric Plant. Revenues of the Department are pledged under the indenture after all amounts due and payable with respect to the Departments Electric System Refunding Revenue Bonds, 1992 Series A and 1992 Series B, issued in the original aggregate principal amount of \$158,400,000 are paid.

Various claims and lawsuits are pending against the City. In the opinion of the City Attorney's Office, the potential loss on all claims and lawsuits will not be significant in relation to the City's financial statements.

The City has entered into a lease with The Public Building Authority of the City of North Little Rock for office space. The lessor is financing the purchase and renovation of the property with \$4,500,000 in revenue bonds. The terms of the lease call for the lease to be effective upon its delivery and continue until December 1, 1999 renewable on January 1, 2000 and annually thereafter on January 1 of each year through 2009, for a final term from January 1, 2009 to August 1, 2009 unless payment has been made in full or provisions of the Series 1999 Bonds for such payment has been made as provided in the indenture. The lease calls for payments on the 25th day of each month, commencing in August of 1999, until the principal of, premium, if any, and interest on the Series 1999 Bonds shall have been fully paid (except upon an event of non-renewal) or provisions for the payment thereof shall have been made in accordance with the Indenture. These payments shall be solely from revenues of the Electric Department, subject to the prior pledge of such revenues to payment of the City's Electric System Revenue Bonds, 1992 Series A and 1992 Series B issued in the original principal amount of \$158,400,000. The City has also agreed to pay as additional rent an amount equal to Trustees fees directly to the Trustee.

The City is participating in a River Rail Project in conjunction with the City of Little Rock, Pulaski County and Central Arkansas Transit Authority (CATA). The City is participating in a federal grant program to construct a light rail system in the downtown areas of Little Rock and North Little Rock. CATA applied for the grant monies based upon representation by the Mayors of North Little Rock and Little Rock and the Pulaski County Judge. The City is responsible for approximately one third of the costs in excess of the grant monies available to complete the project. In addition, future additions or improvements to the rail will be funded by the parties involved based on the location of the addition. The city where the addition or improvement is located will be responsible for 41.667 percent of the costs incurred. The County will be responsible for 33.33 percent and the City, where the addition is not located, the remaining 25 percent.

The Electric Department is involved in litigation which may affect the Electric Department's right to provide service to certain areas within the City of Sherwood, Arkansas. The amount of service area that the Electric Department might ultimately lose, if any, is not known at this time. Management believes that the Electric Department would be compensated for the loss of any such service territory. However, the likelihood of loss of service territory, the amount of any such loss, and the provision for or adequacy of compensation for the loss of service territory, if such loss occurs, are not known at this time.

The North Little Rock Waste Water Utility is involved in a case that alleges the use by the North Little Rock Waste Water customers of certain sewer lines located in the city limits of Sherwood. This use is considered to constitute a trespass and public nuisance. North Little Rock Waste Water Utility plans to vigorously defend their case. A favorable outcome is expected and no estimation of a loss or range of loss can be made at this time in the event of an unfavorable outcome.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent to December 31, 2006, the City entered into a power purchase agreement with the Missouri Joint Municipal Electric Utility Commission (MJMEUC). Under the agreement, the Electric Department is committed to acquire approximately 60 megawatts of generating capacity from the Plum Point Energy Station, which is to be constructed near Osceola, Arkansas, and which is currently scheduled to begin power generation in 2010. The agreement runs through December 31, 2050, but may end prior to that date if the plant is retired, if certain termination provisions apply, or if otherwise agreed to by the parties. Under the agreement, the Electric Department will pay its proportionate share of the fixed and variable costs of operating the plant and its share of MJMEUC's administrative and other costs associated with the contract.

CITY OF NORTH LITTLE ROCK, ARKANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

On June 26, 2006, the Electric Department entered into a new fixed rate wholesale power purchase contract for the period April 1, 2007 through March 31, 2010. In response, the Electric Department implemented rate increases approved by the City Council effective January 1, 2007 and reduced transfers to the City. The City plans to address future increases under the wholesale purchase power contract through financial measures which are intended to minimize the likelihood of any material impact on the Electric Department's future results of operations and financial position.

NOTE 13 - DEFICIT IN FUND BALANCES

The Community Development Agency Fund had a deficit fund balance at December 31, 2006 totaling \$52,629.

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

In 2001, the City of North Little Rock and the City of Little Rock entered into an agreement to create an entity to own and operate a consolidated water system. The newly created entity serves customers located within the corporate limits of the City parties. Under GASB 14, the entity is accounted for as a jointly governed organization.

NOTE 15 - NEW APPLICABLE GASB STANDARDS

GASB has issued statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 47, *Accounting for Termination Benefits*. These statements establish uniform financial reporting standards for other post employment benefits (OPEB) plans, termination benefits and improve the relevance and usefulness of financial reporting and supersede statements No. 12, No. 26 and No. 27. The City will be required to implement these statements for periods beginning after December 15, 2006. Management has not determined the impact these requirements will have on its financial statements.

The City is required to implement GASB No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* for periods beginning after December 2006. Management has not determined the impact this requirement will have on its financial statements.

The City is also required to implement GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* for periods beginning after December 15, 2007. Management has not determined the impact this requirement will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORTH LITTLE ROCK, ARKANSAS
 DEFINED BENEFIT PENSION PLANS - REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 YEAR ENDED DECEMBER 31, 2006

	<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
Non-Uniformed Employees' Deferred Benefit Pension Plan	1999	1,167,000	120%
	2000	1,199,000	114%
	2001	1,173,000	127%
	2002	1,740,000	89%
	2003	1,987,000	81%
	2004	1,990,000	81%
	2005	2,080,000	81%
Local Police and Fire Retirement System - Policemen	1999	1,264,388	100%
	2000	1,306,420	100%
	2001	1,256,835	100%
	2002	714,535	100%
	2003	1,076,858	100%
	2004	1,094,908	100%
	2005	1,282,382	100%
	2006	1,740,964	100%
Local Police and Fire Retirement System - Firemen	1999	1,130,817	100%
	2000	715,986	100%
	2001	1,176,222	100%
	2002	640,573	100%
	2003	714,534	100%
	2004	1,396,358	100%
	2005	1,449,651	100%
	2006	1,759,319	100%

CITY OF NORTH LITTLE ROCK, ARKANSAS
DEFINED BENEFIT PENSION PLANS - REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2006

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Excess As a Percentage of Covered Payroll ((a-b)/c)
Local Police and Fire Retirement System - Policemen							
	1995	\$ (1,819,445)	\$ 7,703,061	\$ (9,522,506)	0%	\$ 5,419,318	176%
	1996	2,315,385	11,139,722	(8,824,337)	21%	5,691,690	155%
	1997	3,103,110	10,324,258	(7,221,148)	30%	5,966,970	121%
	1998	5,794,944	12,169,278	(6,374,334)	48%	6,476,871	186%
	1999	9,838,768	15,298,111	(5,459,343)	64%	6,976,531	78%
	2000	11,981,677	15,659,049	(3,677,372)	77%	7,310,313	50%
	2001	14,270,372	14,407,519	(137,147)	99%	7,381,001	2%
	2002	14,036,154	17,512,056	(3,475,902)	80%	7,955,904	44%
	2003	13,004,184	19,015,449	(6,011,265)	68%	8,174,931	74%
	2004	14,026,616	22,699,543	(8,673,327)	62%	8,529,097	102%
	2005	13,022,546	22,413,601	(9,391,055)	58%	8,882,464	106%
	2006	13,032,873	26,357,602	(13,324,729)	49%	8,713,534	153%
Local Police and Fire Retirement System - Fireman							
	1995	6,149,415	18,217,570	(12,068,155)	34%	4,826,446	250%
	1996	7,395,502	17,840,936	(10,445,434)	41%	4,904,592	213%
	1997	9,120,256	19,913,614	(10,793,358)	46%	5,021,035	215%
	1998	11,289,084	21,302,584	(10,013,600)	53%	5,112,925	196%
	1999	12,666,454	20,528,819	(7,862,365)	62%	5,247,740	150%
	2000	15,160,092	22,186,926	(7,026,834)	68%	5,266,359	133%
	2001	10,976,063	17,960,734	(6,984,671)	61%	5,360,674	130%
	2002	9,997,047	20,773,218	(10,776,171)	48%	6,254,332	172%
	2003	6,652,937	15,390,030	(8,737,093)	43%	6,539,160	135%
	2004	8,145,202	18,732,427	(10,587,225)	43%	6,885,654	154%
	2005	8,735,872	18,733,716	(11,997,844)	36%	7,057,620	170%
	2006	9,432,130	23,269,958	(13,837,858)	41%	6,779,650	204%

Note: The Non-Uniform Employees' Defined Benefit Pension Plan uses the aggregate cost method in calculating the annual actuarially required contribution. This method does not identify or separately amortize unfunded actuarial accrued liabilities. Per paragraph 124 of Governmental Accounting Standards Board State 25 - *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, plans that use the aggregate cost method are not required to present a schedule of funding progress in the supplementary information to the financial statements.

**CITY OF NORTH LITTLE ROCK, ARKANSAS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2006**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Defined Benefit Pension Plans

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation (actuarial valuations are performed bi-annually) follows:

	Non-Uniformed Employee Defined Benefit Pension Plan	Local Police and Fire Retirement System - Policemen	Local Police and Fire Retirement System - Firemen
Actuarial valuation date	12/31/03	12/31/06	12/31/06
Actuarial cost method	Aggregate cost method normal	Entry age normal	Entry age normal
Amortization method	Not applicable	Level percent open	Level percent open
Remaining amortization	Not applicable	30 years	30 years
Asset valuation method	Market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:			
Investment rate of return	7.0%	8.0%	8.0%
Projected salary increases	5.0%	4.0 - 9.1%	4.0 - 9.1%
Includes inflation at	3.5%	4.0%	4.0%
Cost-of-living adjustments	None	3.0%	3.0%

CITY OF NORTH LITTLE ROCK, ARKANSAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,537,981	\$ 343,319	\$ 6,546,284	\$ 10,427,584
Property taxes receivable - net	969,664	-	-	969,664
Sales tax receivable	1,304,951	-	-	1,304,951
Accounts receivable - other	17,046	-	-	17,046
Due from other governments	60,000	-	-	60,000
Due from other funds	-	-	162,432	162,432
Total assets	<u>\$ 5,889,642</u>	<u>\$ 343,319</u>	<u>\$ 6,708,716</u>	<u>\$ 12,941,677</u>
LIABILITIES				
Accrued expenses	\$ 186,317	\$ -	\$ -	\$ 186,317
Due to other governments	15,979	-	-	15,979
Due to other funds	272,350	-	342,424	614,774
Deferred revenue	969,664	-	-	969,664
Total liabilities	<u>1,444,310</u>	<u>-</u>	<u>342,424</u>	<u>1,786,734</u>
FUND BALANCES				
Reserved for encumbrances	625,096	-	1,087,927	1,713,023
Unreserved and undesignated	3,073,421	343,319	5,278,365	8,695,105
Unreserved - designated	746,815	-	-	746,815
Total fund balances	<u>4,445,332</u>	<u>343,319</u>	<u>6,366,292</u>	<u>11,154,943</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,889,642</u>	<u>\$ 343,319</u>	<u>\$ 6,708,716</u>	<u>\$ 12,941,677</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes - sales	\$ 8,278,556	\$ -	\$ -	\$ 8,278,556
Taxes - property	998,046	-	-	998,046
Intergovernmental	1,195,677	152,055	-	1,347,732
Charges for services	1,031,329	-	-	1,031,329
Investment earnings	127,996	61,975	357,010	546,981
Miscellaneous	57,839	-	821	58,660
Total revenues	11,689,443	214,030	357,831	12,261,304
Expenditures				
Current operating:				
Community development	1,075,997	-	-	1,075,997
Parks and recreation	4,834,237	-	-	4,834,237
Public safety - police	13,232	-	-	13,232
Street and traffic	3,868,191	-	-	3,868,191
Capital outlay	85,952	-	3,167,095	3,253,047
Debt Service:				
Principal retirement	-	8,477,640	-	8,477,640
Interest and agent fees	-	397,855	-	397,855
Total expenditures	9,877,609	8,875,495	3,167,095	21,920,199
Excess (deficiency) of revenues over (under) expenditures	1,811,834	(8,661,465)	(2,809,264)	(9,658,895)
Other Financing Sources (Uses)				
Transfers in	250,000	8,254,268	1,272,455	9,776,723
Transfers out	(1,206,304)	-	(1,092,630)	(2,298,934)
Total other financing sources (uses)	(956,304)	8,254,268	179,825	7,477,789
Change in fund balances	855,530	(407,197)	(2,629,439)	(2,181,106)
Fund balances at beginning of year	3,589,802	750,516	8,995,731	13,336,049
Fund balances at end of year	\$ 4,445,332	\$ 343,319	\$ 6,366,292	\$ 11,154,943

CITY OF NORTH LITTLE ROCK, ARKANSAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2006

	Street	Parks and Recreation	Equitable Sharing
Assets			
Cash and cash equivalents	\$ 2,285,821	\$ 469,082	\$ 188,034
Property taxes receivable - net	969,664	-	-
Sales tax receivable	466,353	838,598	-
Accounts receivable - other	-	-	-
Due from other governments	-	-	-
Total assets	<u>\$ 3,721,838</u>	<u>\$ 1,307,680</u>	<u>\$ 188,034</u>
Liabilities and Fund Balances			
Liabilities			
Accrued expenses	\$ 94,190	\$ 92,064	\$ -
Due to other governments	-	15,979	-
Due to other funds	6,362	168,267	3,950
Deferred revenue	969,664	-	-
Total liabilities	<u>1,070,216</u>	<u>276,310</u>	<u>3,950</u>
Fund Balances			
Reserved for encumbrances	145,901	34,772	-
Unreserved and undesignated	2,038,347	717,157	184,084
Unreserved - designated for compensated absences	467,374	279,441	-
Total fund balances	<u>2,651,622</u>	<u>1,031,370</u>	<u>184,084</u>
Total liabilities and fund balances	<u>\$ 3,721,838</u>	<u>\$ 1,307,680</u>	<u>\$ 188,034</u>

<u>Community Development</u>	<u>Drainage Improvement</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ 23,239	\$ 571,805	\$ 3,537,981
-	-	969,664
-	-	1,304,951
17,046	-	17,046
-	60,000	60,000
<u>\$ 40,285</u>	<u>\$ 631,805</u>	<u>\$ 5,889,642</u>

\$ 63	\$ -	\$ 186,317
-	-	15,979
92,851	920	272,350
-	-	969,664
<u>92,914</u>	<u>920</u>	<u>1,444,310</u>

200,063	244,360	625,096
(252,692)	386,525	3,073,421
-	-	746,815
<u>(52,629)</u>	<u>630,885</u>	<u>4,445,332</u>
<u>\$ 40,285</u>	<u>\$ 631,805</u>	<u>\$ 5,889,642</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Street</u>	<u>Parks and Recreation</u>	<u>Equitable Sharing</u>
Revenues			
Taxes - sales	\$ 3,389,299	\$ 4,889,257	\$ -
Taxes - property	998,046	-	-
Intergovernmental	-	55,000	-
Charges for services	38,507	955,231	37,591
Investment earnings	93,101	12,145	3,994
Miscellaneous	3,016	-	54,125
	<u>4,521,969</u>	<u>5,911,633</u>	<u>95,710</u>
Total revenues			
Expenditures			
Current operating:			
Community development	-	-	-
Parks and recreation	-	4,834,237	-
Public safety - police	-	-	13,232
Street and traffic	3,868,191	-	-
Capital outlay	-	-	-
	<u>3,868,191</u>	<u>4,834,237</u>	<u>13,232</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	653,778	1,077,396	82,478
Other Financing Sources (Uses)			
Transfers from other funds	-	-	-
Transfers to other funds	-	(1,018,005)	-
Transfers to component units	-	(188,299)	-
	<u>-</u>	<u>(1,206,304)</u>	<u>-</u>
Total other financing sources (uses)			
Change in fund balances	653,778	(128,908)	82,478
Fund balances at beginning of year	1,997,844	1,160,278	101,606
Fund balances at end of year	\$ 2,651,622	\$ 1,031,370	\$ 184,084

<u>Community Development</u>	<u>Drainage Improvement</u>	<u>Total Nonmajor Special Revenue Funds</u>
\$ -	\$ -	\$ 8,278,556
-	-	998,046
1,140,677	-	1,195,677
-	-	1,031,329
79	18,677	127,996
-	698	57,839
<u>1,140,756</u>	<u>19,375</u>	<u>11,689,443</u>
1,075,997	-	1,075,997
-	-	4,834,237
-	-	13,232
-	-	3,868,191
-	85,952	85,952
<u>1,075,997</u>	<u>85,952</u>	<u>9,877,609</u>
64,759	(66,577)	1,811,834
-	250,000	250,000
-	-	(1,018,005)
-	-	(188,299)
-	250,000	(956,304)
64,759	183,423	855,530
<u>(117,388)</u>	<u>447,462</u>	<u>3,589,802</u>
<u>\$ (52,629)</u>	<u>\$ 630,885</u>	<u>\$ 4,445,332</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
 COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 DECEMBER 31, 2006

	<u>1993 Jail and Police Capital Improvement</u>	<u>2001 Series Capital Improvement</u>	<u>2003 Series Short-Term Obligations</u>
Assets			
Cash and cash equivalents	\$ 300,055	\$ 43,264	\$ -
Total assets	<u>\$ 300,055</u>	<u>\$ 43,264</u>	<u>\$ -</u>
Fund Balances			
Unreserved	\$ 300,055	\$ 43,264	\$ -
Total fund balances	<u>\$ 300,055</u>	<u>\$ 43,264</u>	<u>\$ -</u>

<u>2004 Series Short-Term Obligations</u>	<u>2005 Series Short-Term Obligations</u>	<u>2005-2 Series Short-Term Obligations</u>	<u>2005-3 Series Short-Term Obligations</u>	<u>2006 City of North Little Rock Promissory Note</u>	<u>Total Nonmajor Debt Service Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343,319
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343,319
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343,319
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343,319

CITY OF NORTH LITTLE ROCK, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	1993 Jail and Police Capital Improvement	2001 Series Capital Improvement	2003 Series Short-Term Obligations
Revenues			
Pulaski County	\$ 152,055	\$ -	\$ -
Investment earnings	<u>14,231</u>	<u>47,744</u>	<u>-</u>
Total revenues	<u>166,286</u>	<u>47,744</u>	<u>-</u>
Expenditures			
Debt service:			
Principal retirement	130,000	2,145,000	208,704
Interest and agents fees	<u>22,747</u>	<u>69,713</u>	<u>13,301</u>
Total expenditures	<u>152,747</u>	<u>2,214,713</u>	<u>222,005</u>
Excess(deficiency) of revenues over(under) expenditures	13,539	(2,166,969)	(222,005)
Other Financing Sources (Uses)			
Transfers from other funds	<u>-</u>	<u>1,746,233</u>	<u>222,005</u>
Total other financing sources (uses)	<u>-</u>	<u>1,746,233</u>	<u>222,005</u>
Change in fund balances	13,539	(420,736)	-
Fund balances at beginning of year	<u>286,516</u>	<u>464,000</u>	<u>-</u>
Fund balances at end of year	<u>\$ 300,055</u>	<u>\$ 43,264</u>	<u>\$ -</u>

2004 Series Short-Term Obligations	2005 Series Short-Term Obligations	2005-2 Series Short-Term Obligations	2005-3 Series Short-Term Obligations	2006 City of North Little Rock Promissory Note	Total Nonmajor Debt Service Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 152,055
-	-	-	-	-	61,975
-	-	-	-	-	214,030
90,400	85,821 14,070	663,115 98,684	- 77,740	5,245,000 11,200	8,477,640 397,855
90,400	99,891	761,799	77,740	5,256,200	8,875,495
(90,400)	(99,891)	(761,799)	(77,740)	(5,256,200)	(8,661,465)
90,400	99,891	761,799	77,740	5,256,200	8,254,268
90,400	99,891	761,799	77,740	5,256,200	8,254,268
-	-	-	-	-	(407,197)
-	-	-	-	-	750,516
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343,319

CITY OF NORTH LITTLE ROCK, ARKANSAS
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 DECEMBER 31, 2006

	<u>Parks Capital Improvements</u>	<u>2005 Sales Tax Capital Improvements</u>	<u>2005-3 Sales Tax Capital Improvements</u>
Assets			
Cash and cash equivalents	\$ 2,506,400	\$ -	\$ 1,367,769
Due from other funds	<u>150,202</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,656,602</u>	<u>\$ -</u>	<u>\$ 1,367,769</u>
Liabilities and Fund Balances			
Liabilities			
Due to other funds	<u>\$ 169,439</u>	<u>\$ -</u>	<u>\$ 77,411</u>
Total liabilities	<u>169,439</u>	<u>-</u>	<u>77,411</u>
Fund Balances			
Reserved for encumbrances	340,278	-	715,624
Unreserved	<u>2,146,885</u>	<u>-</u>	<u>574,734</u>
Total fund balances	<u>2,487,163</u>	<u>-</u>	<u>1,290,358</u>
Total liabilities and fund balances	<u>\$ 2,656,602</u>	<u>\$ -</u>	<u>\$ 1,367,769</u>

<u>2004 Sales Tax Capital Improvements</u>	<u>2001 Sales Tax Parks Capital Improvements</u>	<u>2001 Sales Tax Capital Improvements</u>	<u>Special Projects Infrastructure</u>	<u>Total Nonmajor Capital Projects Funds</u>
\$ 224,424	\$ -	\$ -	\$ 2,447,691	\$ 6,546,284
12,230	-	-	-	162,432
<u>\$ 236,654</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,447,691</u>	<u>\$ 6,708,716</u>
\$ 95,574	\$ -	\$ -	\$ -	\$ 342,424
95,574	-	-	-	342,424
32,025	-	-	-	1,087,927
109,055	-	-	2,447,691	5,278,365
141,080	-	-	2,447,691	6,366,292
<u>\$ 236,654</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,447,691</u>	<u>\$ 6,708,716</u>

CITY OF NORTH LITTLE ROCK, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Parks Capital Improvements	2005 Sales Tax Capital Improvements	2005-3 Sales Tax Capital Improvements
Revenues			
Investment earnings	\$ 131,356	\$ 869	\$ 90,933
Miscellaneous	<u>38</u>	<u>-</u>	<u>-</u>
Total revenues	<u>131,394</u>	<u>869</u>	<u>90,933</u>
Expenditures			
Capital outlay	<u>1,358,740</u>	<u>-</u>	<u>1,112,575</u>
Total expenditures	<u>1,358,740</u>	<u>-</u>	<u>1,112,575</u>
Excess(deficiency) of revenues over(under) expenditures	(1,227,346)	869	(1,021,642)
Other Financing Sources(Uses)			
Transfer from other funds	1,018,005	-	-
Transfer to other funds	<u>(1,010,908)</u>	<u>(1,479)</u>	<u>-</u>
Total other financing sources(uses)	<u>7,097</u>	<u>(1,479)</u>	<u>-</u>
Change in fund balances	(1,220,249)	(610)	(1,021,642)
Fund balances at beginning of year	<u>3,707,412</u>	<u>610</u>	<u>2,312,000</u>
Fund balances at end of year	<u>\$ 2,487,163</u>	<u>\$ -</u>	<u>\$ 1,290,358</u>

<u>2004 Sales Tax Capital Improvements</u>	<u>2001 Sales Tax Parks Capital Improvements</u>	<u>2001 Sales Tax Capital Improvements</u>	<u>Special Projects Infrastructure</u>	<u>Total Nonmajor Capital Projects Funds</u>
\$ 30,274	\$ 423	\$ 2,354	\$ 100,801	\$ 357,010
-	-	-	783	821
<u>30,274</u>	<u>423</u>	<u>2,354</u>	<u>101,584</u>	<u>357,831</u>
<u>681,195</u>	<u>14,585</u>	<u>-</u>	<u>-</u>	<u>3,167,095</u>
<u>681,195</u>	<u>14,585</u>	<u>-</u>	<u>-</u>	<u>3,167,095</u>
(650,921)	(14,162)	2,354	101,584	(2,809,264)
-	-	-	254,450	1,272,455
-	-	(80,243)	-	(1,092,630)
-	-	(80,243)	254,450	179,825
(650,921)	(14,162)	(77,889)	356,034	(2,629,439)
<u>792,001</u>	<u>14,162</u>	<u>77,889</u>	<u>2,091,657</u>	<u>8,995,731</u>
\$ 141,080	\$ -	\$ -	\$ 2,447,691	\$ 6,366,292

REPORT REQUIRED BY THE STATE OF ARKANSAS

WILCOX & BIVINGS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS REPORT ON COMPLIANCE WITH CERTAIN STATE ACTS

Honorable Mayor Patrick Hays, Mayor
And Members of the City Council
City of North Little Rock, Arkansas

We have examined management's assertions that the City of North Little Rock, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2006.

- (a) Municipal Accounting Law, Act 159 of 1973, Act 616 of 1979 and Act 308 of 1977 (Arkansas Statutes 19-5301 – 19-5317);
- (b) Municipal Courts, Police Courts, City Courts and Justice of the Peace courts Accounting Law of 1977, Act 332 of 1977, Acts 677 and 776 of 1985, Act 904 of 1991 and Act 1256 of 1996 (Arkansas Statutes 22-1101 – 22-1108);
- (c) Municipal Court and Police Department Uniform Filing Fees and Court Cost, Act 1341 of 1997;
- (d) Bonding of Municipal Officers and Employees, Act 338 of 1955, Act 677 of 1975, Act 940 of 1977 and Act 1014 of 1987 (Arkansas Statutes 13-412 – 13-412.3) (Replaced by Act 5 of 1985);
- (e) Improvement Contracts over \$20,000, Act 159 of 1949, Act 183 of 1957, Act 477 of 1961, Act 370 of 1977, Act 266 of 1981, Act 871 of 1983, Acts 758 and 759 of 1987, Act 936 of 1989, Act 728 of 1991, Act 645 of 1993 and Act 1319 of 1995 (Arkansas Statutes 14-611 – 14-614);
- (f) Budgets, Purchases over \$2,000; Payments of Claims, Etc., Act 28 of 1959, Act 154 of 1979, Acts 344 and 926 of 1981, Act 745 of 1985 and Act 812 of 1995 (Arkansas Statutes 19-4421 – 19-4430);
- (g) Investment of Public Funds, Act 273 of 1943; Act 106 of 1973, Act 402 of 1995 and Act 1341 of 2000 (Arkansas Statutes 13-901 – 13-904); and
- (h) Deposit of Public Funds, Act 21 of 1935, Acts 57 and 62 of 1945, Act 122 of 1947, Act 18 of 1964, Acts 89 and 107 of 1973, Act 250 of 1987, Act 459 of 1991 and Acts 232 and 700 of 1995 (Arkansas Statutes 13-801 – 13-805).

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of North Little Rock, Arkansas, complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2006.

This report is intended solely for the information and use of the governing body, management and the State of Arkansas, and is not intended to be and should not be used by anyone other than these specified parties.

Wilcox & Bivings, P.C.

Suwanee, Georgia
March 19, 2008

REPORTS AND SCHEDULES REQUIRED BY THE SINGLE AUDIT ACT

WILCOX & BIVINGS, P.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Patrick Hays, Mayor
And Members of the City Council
City of North Little Rock, Arkansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining funds information of the City of North Little Rock, Arkansas as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 19, 2008. We did not audit the financial statements of the North Little Rock Electric Department, the Utilities Accounting Department, and the North Little Rock Waste Water Utility. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the North Little Rock Electric Department, the Utilities Accounting Department, and the North Little Rock Waste Water Utility, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the North Little Rock Electric Department and the Utilities Accounting Department were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of North Little Rock, Arkansas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of North Little Rock, Arkansas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of North Little Rock, Arkansas' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of North Little Rock, Arkansas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of North Little Rock, Arkansas' financial statements that is more than inconsequential will not be prevented or detected by the City of North Little Rock, Arkansas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of North Little Rock, Arkansas' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and City Council
City of North Little Rock, Arkansas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of North Little Rock, Arkansas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilcox & Bivings, P.C.

Suwanee, Georgia
March 19, 2008

WILCOX & BIVINGS, P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Patrick Hays, Mayor
And Members of the City Council
City of North Little Rock, Arkansas

Compliance

We have audited the compliance of the City of North Little Rock, Arkansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The City of North Little Rock, Arkansas' major federal programs are identified in summary of auditors' results section of the accompany schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of North Little Rock, Arkansas' management. Our responsibility is to express an opinion on the City of North Little Rock, Arkansas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the City of North Little Rock, Arkansas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of North Little Rock, Arkansas' compliance with those requirements.

In our opinion, the City of North Little Rock, Arkansas complied, in all materials respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006

Internal Control over Compliance

The management of the City of North Little Rock, Arkansas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of North Little Rock, Arkansas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of North Little Rock, Arkansas' internal control over compliance.

Honorable Mayor and City Council
City of North Little Rock, Arkansas

A control deficiency in the City of North Little Rock, Arkansas' internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of North Little Rock, Arkansas' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of North Little Rock, Arkansas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of North Little Rock, Arkansas' internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilcox & Bivings, P.C.

Suwanee, Georgia
March 19, 2008

CITY OF NORTH LITTLE ROCK, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/Pass through Grantor /Program or Cluster Title	Federal CFDA#	Federal Expenditures
U. S. Department of Housing and Urban Development		
Office of Community Planning & Development Programs:		
Community Development Block Grant Program	14.218	\$ 735,261
Home Investment Partnership Program	14.239	384,164
Total U.S. Department of Housing and Urban Development		<u>1,119,425</u>
U. S. Department of Justice		
Bureau of Justice Assistance-National Institute of Justice-Cold Case	16.560	7,483
Bureau of Justice Assistance-Local Law Enforcement Block Grant Program(Block Grant 2004)	16.592	38,902
Bureau of Justice Assistance-Edward Byrne Memorial Justice Assistance Grant Program(JAG Grant)	16.738	99,344
Office of Community Oriented Policing Services-Public Safety Partnership & Community		
Policing Grants-Arkansas State Police-S.T.E.P. Grant	16.710	31,916
Total U.S. Department of Justice		<u>177,645</u>
U.S. Department of Homeland Security		
Federal Emergency Management-Fire Prevention & Safety	97.046	335
Fire Management Assistance Grant	97.046	343,787
Pre-Disaster Mitigation-Arkansas Department of Emergency Management	97.047	10,000
Homeland Security Grant Program(SHSGP FY 03 1) AR Dept. of Emergency Management	97.067	5,101
Homeland Security Grant Program(SHSGP FY 05) AR Dept. of Emergency Management	97.067	211,572
Law Enforcement Terrorism Prevention Program(LETPP) AR Dept. of Emergency Management	97.074	58,226
Buffer Zone Protection Plan(BZZP) -Little Rock Police Department	97.078	26,405
Total U.S. Department of Homeland Security		<u>655,425</u>
U.S. Department of Health And Human Services		
Centers for Disease Control-Assistance Programs for Chronic Disease Prevention and Control	93.945	19,006
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	3,322
Total U.S. Department of Health and Human Services		<u>22,328</u>
U. S. Department of Transportation		
Airport Improvement Program	20.106	<u>243,091</u>
U.S. Department of The Interior		
Historic preservation Fund Grants-AR Historic Preservation	15.904	15,579
National Park Service-Outdoor Recreation Grant Program -AR Department of Parks & Tourism	15.916	284,530
Total U.S. Department of The Interior		<u>300,109</u>
U.S. Department of Agriculture		
Summer Food Service Program for Children-Arkansas Department Health & Human Services	10.559	<u>81,698</u>
U.S. Environmental Protection Agency		
Office of Solid Waste and Emergency Response Brownsfields Assessment and Cleanup Cooperative Agreements	66.818	<u>40,000</u>
Total Expenditures of Federal Awards		<u>\$ 2,639,722</u>

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Arkansas Aeronautics Commission	\$ 70,439
Arkansas Department of Economic Development(EIF) Program	60,000
Arkansas Chapter of National Organizations(Arkansans for Drug Free Youth)	<u>3,410</u>
Total State Direct Awards	<u>\$ 133,849</u>

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City of North Little Rock, Arkansas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF NORTH LITTLE ROCK, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Summary of Auditors' Results

- ❖ The independent auditors report expresses an unqualified opinion on the basic financial statements of the City of North Little Rock, Arkansas.
- ❖ No reportable conditions relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- ❖ No instances of noncompliance material to the financial statements of the City of North Little Rock, Arkansas were disclosed during the audit.
- ❖ No reportable conditions relating to the audit of the major federal award programs are reported in the independent auditors report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with *OMB Circular A-133*.
- ❖ The independent auditors report on compliance for the major federal award programs for the City of North Little Rock, Arkansas expresses an unqualified opinion.
- ❖ No audit findings relative to the major federal award programs for the City of North Little Rock, Arkansas are reported in this schedule.
- ❖ The programs tested as major were:
 - CFDA #14.218 - United States Department of Housing and Urban Development - Community Planning and Development - Community Development Block Grants.
 - CFDA #14.239 - United States Department of Housing and Urban Development - Home Investment Partnership Program.
- ❖ The threshold for distinguishing Types A and Type B Programs was \$300,000.
- ❖ The City of North Little Rock, Arkansas did qualify as a low-risk auditee.

Findings - Financial Statement Audit:

- ❖ None

Findings and Questioned Costs – Major Federal Awards Programs Audit:

- ❖ None

CITY OF NORTH LITTLE ROCK, ARKANSAS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

FINDING 205-1

The City does not have a policy for recording grant revenues and expenditures. Grants obtained at the department level are not always communicated to the Finance Department in a timely manner.

Corrective Action - The Finance Department has informed all departments to notify the Finance Department upon receipt of all grants. During 2005 and 2006, the Finance Department developed a new reporting form for the departments to use to notifying the Finance Department of grants and requests for federal funds.

FINDING 205-2

During the course of the audit, it was noted that in the opinion of the prior auditor, the internal control was insufficient within several departments as conflicting duties were performed by the same individual due to the lack of segregation of duties. Segregation of accounting duties is an essential element of effective internal control, involving the separation of custody of assets from related recording and monitoring of transactions. Due to the limited number of personnel, segregation is difficult. However, there are compensating controls management could implement to reduce the possibility of errors or fraud going undetected in the normal course of business.

Corrective Action - The City has continued its efforts in limiting performance of incompatible duties by individuals within the various departments, and will continue in its efforts to implement compensating management controls.

**CITY OF NORTH LITTLE ROCK, ARKANSAS
120 MAIN STREET
NORTH LITTLE ROCK, ARKANSAS 72114
501-975-8800**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2006**

- ❖ As there were no findings for the year ended December 31, 2006, there are no corrective actions.